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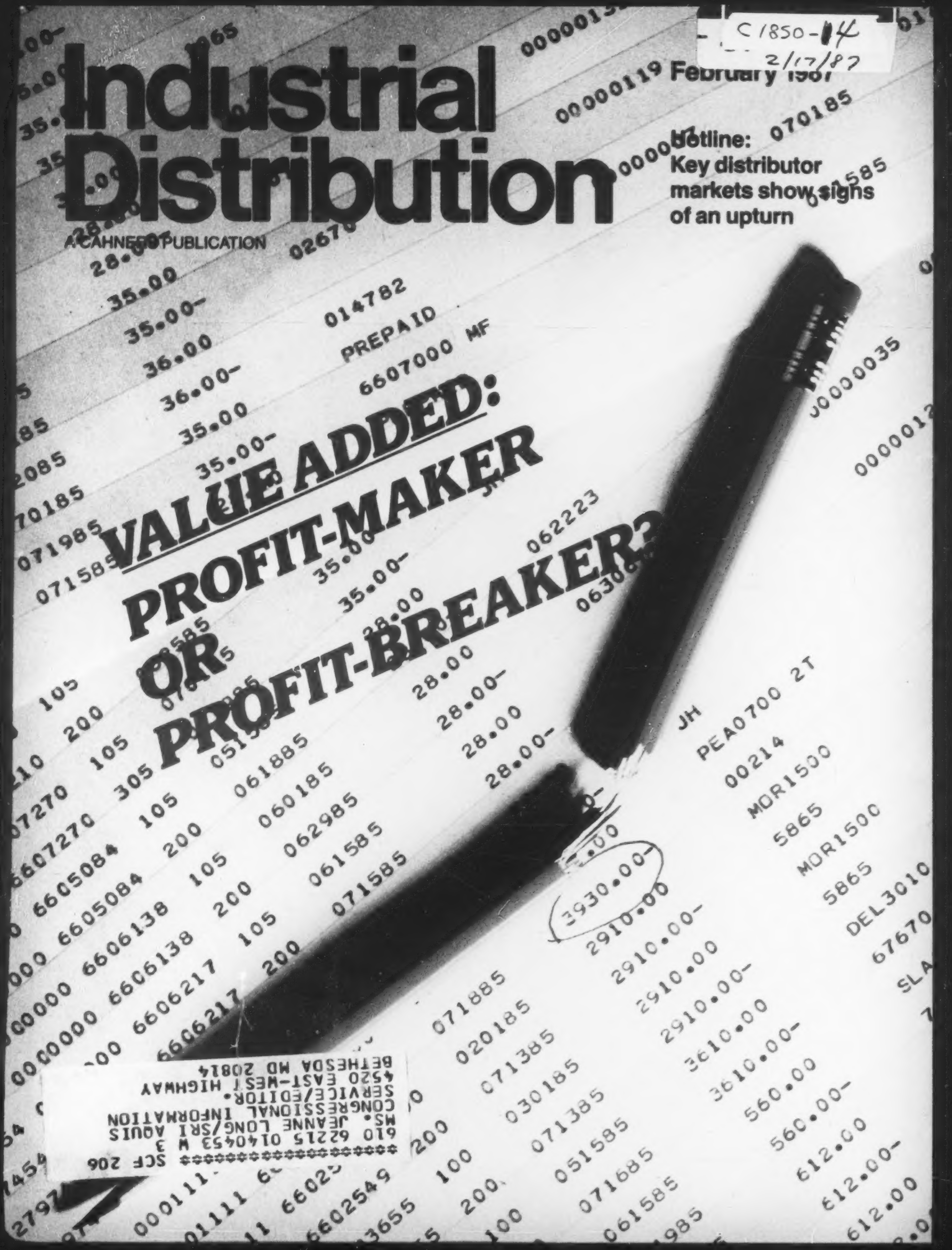
Industrial Distribution

A CAHNERS PUBLICATION

February 1987

Hotline:
Key distributor markets show signs of an upturn



VALUE ADDED: PROFIT-MAKER OR PROFIT-BREAKER?

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ID Industrial Distribution

VOL. 76, NO. 2/76th yr. A CAHNERS PUBLISHING PUBLICATION FEBRUARY 1987

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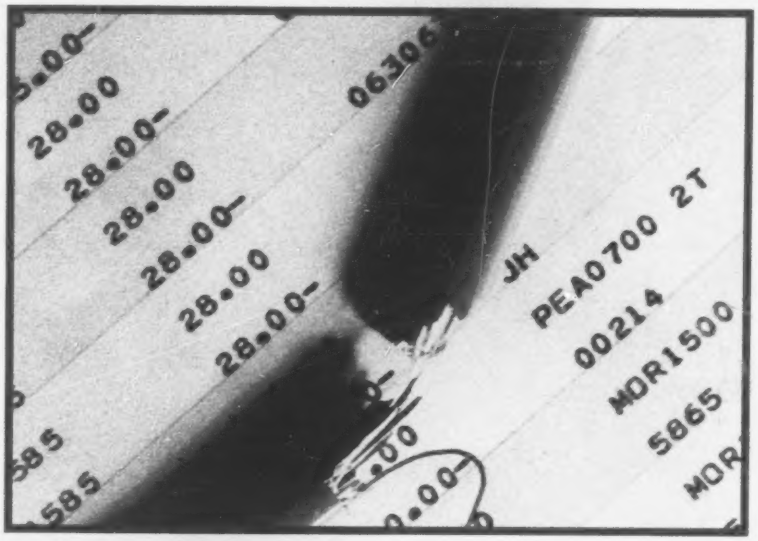
Value added: profit maker or profit breaker?



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Indicators. . .

The *NIDA/SIDA Industrial Distribution Index* for the month of October jumped a full six points ahead of September's figures to a level of 150.4. In October of the previous year, the index stood at 148.9, a change of 1.5% year-to-date. Each of the four geographic locations also reported monthly gains: East 140.4 (+8.1); Midwest (+4.1); West (+8.6); and the South (+6.9). In October '86 and '85 comparisons, all regions except the Midwest indicated improvement: East (+2.4); West (+1.9); South (+13.6); and the Midwest (−1.9)...The *NIDA/SIDA Industrial Supply Inflation Index* (1977 = 100) stands at 165.3 for the month of October, a 0.1% increase for the second straight month ahead of September's level of 165.1. A year ago the index stood at 163.4 in October, an increase of 1.2%...*SIDA's Monthly Sales Trend Report* for October showed a healthy gain of 6.69 points, although the index is 1.62 points lower than October '85 figures. Area IV of the Report, which includes the oil-belt states of AR, LA, OK, and TX, continued to indicate problems in that part of the country, as the index now stands 16.69 points below the previous year's mark. Area II (FL, GA, SC, PR) also showed a lackluster performance in the same comparison, down 8.04 points behind October 1985. Areas I (NC, VA, WV) and Area III (AL, KY, MS, TN) both fared considerably better advancing 6.68 and 6.82 points respectively. Of the 75 locations reporting results in the survey, 45 indicated an increase in October sales, and 26 responded with increased sales in an October '86 to '85 comparison...The ASMMA *Monthly Index of New Orders* inched slighly ahead in the month of October, up .3% from 120.0 to 120.3. By way of comparison, February indicated a monthly high of 120.1, and April recorded a low 116.0☐

A manufacturer of industrial electric motors, a product line in which Baldor derives over 90% of its business, the company serves its end-users through 2000 distributors and another 2000 OEM's. Baldor, which employs over 2000 people, maintains manufacturing facilities in seven locations and has 31 regional warehouses.☐

RB&W sells hardware division to Allied International

New York, NY—RB&W Corp. has announced the sale of its hardware division to Allied International-American Eagle Trading Corp. of Rye, New York. The company's chairman and

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BUSINESS REPORT

Living with slow growth

In the past year, our statistics showing % change in sales compared with the same month in the previous year (see graph), has not been up more than 5%, nor down more than 5%. Although other figures comparing previous months, as well as regional comparisons have bounced around a good deal more, especially in some parts of the country, the national trend of distributor sales has lazed along in a narrow range, reflecting the slow growth pattern which has avoided both recession and strong sales. If this trend continues, will distributors be less likely to take risks fearing low returns or long periods before recovering investment capital?

Says one southern distributor: "We're very cautious about getting in to new projects where we might be vulnerable. This slow growth helps few, and hurts a lot, and if things stay the same in the next few years, I hate to think of the annual increases we'd be forced to offer our employees. I don't know where else to cut expenses."

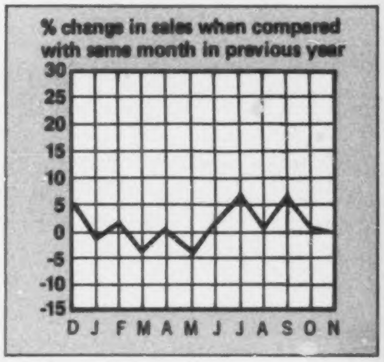
It is in this area of payroll where most distributors are looking to keep costs contained. One midwest distributor forced his outside salesmen out of any guaranteed draw, insisting they work on commission only, which heretofore had been the *modus operandi* of their two best salesmen, who also happened to have the two best territories.

Other distributor views ranged from changing insurance policies downgrading coverage to contingency plans for employee layoffs later in the year.

With 2.5% growth predicted for 1987 according to the country's leading conomists, distributors will have to continue to fight to keep their operations healthy. The one kicker that could change the near term outlook: a sharp increase in American exports triggering an expansion in manufacturing.

In regional reporting for November, sales nationally were even compared to last year. Month-to-month reporting was unanimously negative, showing a drop of 15%, Nov. vs. Oct, 1986. Receivables showed little change.

—Milt Ellenbogen


% change in sales when compared with same month in previous year

RECEIVABLES*

	Nov. '86		vs. Nov. '85	
	Gen.	Spoc	Gen.	Spec.
New England	44	47	47	47
Middle Atlantic	46	44	44	44
South Atlantic	37	38	34	37
East No. Central ...	40	41	43	44
East So. Central ...	44	35	42	35
West No. Central ...	42	39	38	42
West So. Central ...	43	40	46	37
Mountain	35	38	38	45
Pacific	41	41	42	41
National	41	40	42	41

* Average days outstanding

SALES BY REGIONS (% change)	Nov.'86 vs. Oct.'86			Nov.'86 vs. Nov.'85			1st 11 months'86 vs. 1st 11 months'85		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−17	−16	−17	−1	+5	+2	−7	−1	−4
Connecticut	—	−25	—	—	+6	—	—	−1	—
Massachusetts	−11	—	—	−5	—	—	−2	—	—
MIDDLE ATLANTIC: NY, NJ, PA	−24	−15	−17	−10	−4	−5	−2	−1	−1
New York Metropolitan Area	—	−12	—	—	0	—	—	+1	—
Upstate New York	−29	−12	−21	−16	−2	−9	−3	−2	−3
Pennsylvania	−15	−19	−19	+3	−6	−4	0	−2	−1
SOUTH ATLANTIC:DE, DC, MD, FL, GA, NC, SC, VA, WV	−24	−18	−21	−10	−3	−6	−1	−2	−2
Georgia-Florida	—	−17	—	—	+3	—	—	−2	—
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	−19	−21	−20	+1	−13	−7	−1	+3	+1
Indiana	−17	−16	−17	+13	0	+10	+9	+11	+9
Wisconsin	—	−29	—	—	−4	—	—	+6	—
Chicago	—	—	—	—	—	—	—	—	—
Michigan	−26	−19	−21	−6	−23	−18	+3	+1	+2
Ohio	−17	−12	−15	−5	−13	−9	−10	0	−6
EAST SOUTH CENTRAL:AL,MS, KY, TN	−15	−13	−13	+12	+10	+10	+15	+2	+5
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−13	−16	−15	−3	+1	+2	+1	−2	0
WEST SOUTH CENTRAL: AK, LA,OK, TX	−8	−14	−11	+10	+7	+9	+2	+2	+2
Texas	—	−14	—	—	+7	—	—	+2	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	−20	−33	−26	+2	+10	+5	+3	+6	+4
PACIFIC: CA, OR, WA	+2	−14	−5	+12	+11	+11	+8	+3	+6
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	—	−16	—	—	+12	—	—	+6	—
U.S. TOTALS	−13	−17	−15	+2	−2	0	+1	+1	+1

FOCUS ON SERVICES

A look at hotel costs and services

With the cost of overnight travel continuing upward and distributor profit margins narrowing, the need to control hotel/travel costs has become imperative for maintaining a healthy bottom line.

A recent report conducted by ***ID*** entitled, *Industrial Distribution Hotel/Motel Usage Telephone Study*, examined the use of overnight lodging for business purposes by distributors.

The purpose of the report was, in part, to see how effectively distributors controlled their costs as they pertain to out-of-town travel, as well as to monitor those features most important in selecting a hotel/motel room for either overnight travel or holding sales meetings.

Nearly 60% of all distribution managers indicated that the typical overnight accommodation costs between $50-$120, and an average of 39 trips are taken each year. Add in automobile use, meals, airfare and incidentals, and it's not very difficult to see the need for tracking these expenditures.

Hotel/motel usage

According to the *1986-1987 Survey of Business Travel Policies and Costs* conducted by Runzheimer International, management consultants, if the typical business spends between $250,000 and $500,000 annually on travel, only then can it start to "systematically" manage travel related expenses. This is not to suggest that a company with a much smaller allowance cannot manage its costs, but the inference is that full time travel executives can seek cost efficiencies not normally pursued by smaller companies. For example, Runzheimer discovered that while 90% of all companies make use of corporate rates at hotels, only 60% negotiate their rates at frequently used hotel chains which, the survey reports, saved companies between $1000 and $25,000 each year.

In a similar question asked of the ***ID*** audience, only 32% responded "Yes" when asked if the company maintained a corporate account at those hotels they most frequented. If there are any lessons to be learned from this, then certainly it helps to have a full time travel manager monitoring these expenses.

But for most distributors this is not practical, as responsibility for watching travel costs alternately falls between the titular head of the sales force, or the company's owner. One suggestion in trying to lessen hotel expenses is to identify specific locations most frequented (such as near a major client), and approach a suitably located hotel with a cost containment package.

Of those companies surveyed in the Runzheimer report with 1985 travel expenditures of $250,000 or less, 17% reported an average discount of between 1%-6% through negotiated hotel rates, 27% achieved a 7%-10% discount, 20% an 11%-15% reduction, and another 20% saved 16%-20%. In actual dollar savings, the numbers come alive. In 1986, 21% of the respondents reported annual savings of between $1000-$5000, 17% saved $5001-$10,000, and 19% saved between $10,001-$25,000. Granted, these companies have much larger travel budgets than the typical industrial distributor, but for the price of a few telephone calls and an investment of only time, managing hotel expenses is not at all impossible.

TABLE I

AVERAGE NUMBER OF TRIPS REQUIRING HOTEL/MOTEL USAGE
How many out-of-town business trips require you and/or your sales staff to stay in a hotel and/or motel in . . .

An Average Month	
0	20.2%
1-2	28.4
3-5	20.2
6-10	18.3
11-15	5.5
16-20	2.8
Don't Know	4.6
Average:	4.1 trips

An Average Year	
1-5	11.0%
6-9	8.3
10-19	23.8
20-39	14.7
40-49	8.3
50-99	18.3
100 or more	11.0
Don't know	4.6
Average:	38.8 trips

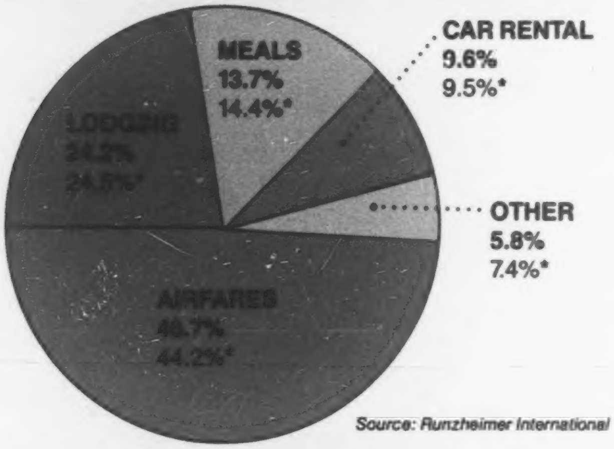
Source: Industrial Distribution

How does your company compare?

In an average month, reports the ***ID*** survey, 4.1 overnight trips are taken by the typical distributor's sales staff and management; 18% percent report that between 6-10 "hotel" trips are taken each month, while a roughly equal number indicates that 50-99 trips are taken annually. The average number of annual trips, however, is closer to 39. (See Table 1)

[*continued on page 50*]

FOCUS ON SERVICES...



Source: Runzheimer International

Percent Of Travel Expenditures In Each Expense Category For 1986 *1984 figures

While on these trips, the vast majority of the *ID* audience, 71.5%, stayed overnight in a hotel less than two days; 19% three days; 3.7% four days, and 5.5% stayed five or more days.

What does your company spend?

By and large, it would seem as if the typical traveling salesman in the distribution business is a fairly thrifty individual, based on the average hotel expenditure per day on a business trip. When considering that a single night's stay in New York's Waldorf-Astoria (a Hilton hotel) costs between $145-$250 for a single, $66 seems all too reasonable an amount to pay for a bed, an unused dresser, and a city guide.

In fact, one-third of all respondents pay $49 or less for a hotel room, which indicates some thought is now used for business planning, although this probably increases for cities like New York which are considered the higher end of the market. (See Table II.)

Hotels or motels, a matter of taste

Ask anyone the difference between a hotel and a motel, and you are likely to get as many answers as questions posed. If "motorlodge" were to be thrown in as a wild card, the result could be unimaginable. Nonetheless, *ID* made just such a query of its readers, and revealed that most travelers had little preference. (See Table III.) Although the survey found that only 30% of its traveling audience used hotel/ motel facilites solely for overnight stays, it also revealed that of those individuals, nearly 50% used other facilities at the hotel for sales meetings, customer orientation meetings (9.1%), conferences (40.9%), as well as for other purposes (15.9%). When queried as to whether or not food and drinks were provided at these functions, 90.9% indicated that they were in fact supplied.

Also interesting to note, were the size of the meetings/conferences held. Only 16% claimed that fewer than 10 people would be in attendance; 20% invited between 10-19; 43% between 20-29; and 18% invited more than 30.

TABLE II
AVERAGE HOTEL/MOTEL EXPENDITURES
Approximately, what is the average hotel/motel expenditure per day on a business trip?

Less than $40	10.1%
$40-$49	20.2
$50-$59	16.5
$60-$69	9.2
$70-$79	9.2
$80-$99	5.5
$100-$119	11.9
$120 or more	6.4
Don't know	11.0
Average:	$66

Source: Industrial Distribution

TABLE III
PREFERENCE OF HOTEL OR MOTEL
Do you prefer hotel or motel chains?

Hotel	23.9%
Motel	38.5
No preference	37.6

What's important

The final part of the *ID* survey took a look at what might be considered subjective reasoning, or to be a bit more fair, common sense business judgement. In exploring those features of a hotel or motel that were most important in the selection process, participants of the survey were asked to rate from "Very Important" to "Not Important At All" nine separate categories. What turned out to be the most important consideration of all, 36.3%, was the quality of the room, followed by the room's cost, 27.4%, and the ease in which one can check-in and out of the hotel, with a rating of 26.6%.

Summing up: you can do better

While some studies indicate that the actual cost of traveling has stabilized, increased pressure on companies to sell their wares in the marketplace simply means selling harder, and selling harder also means more traveling.

Simply put, increased competition demands more travel, and although travel cost-containment was previously for large companies only, cost-control methods can now be easily monitored and enforced at small to medium-sized companies as well.

"Less expensive means now exist to identify travel patterns and to pinpoint areas where costs can be reduced" says the Runzheimer study. By making use of computer generated management reports, many firms are now able to learn more about travel expenses. These reports compile and detail travel expense information, and a number of credit card companies will, for a fee, provide this information. In addition to technology helping to rein-in costs, suppliers, suggests Runzheimer, are now ready to provide more cost-effective service to companies.☐ **John G.F. Bonnanzio**

Industrial Distribution

A CAHNERS PUBLICATION

March 1987

C1850-4
3/19/87

**Hotline:
Impact of new
Congress on
distributors unclear**

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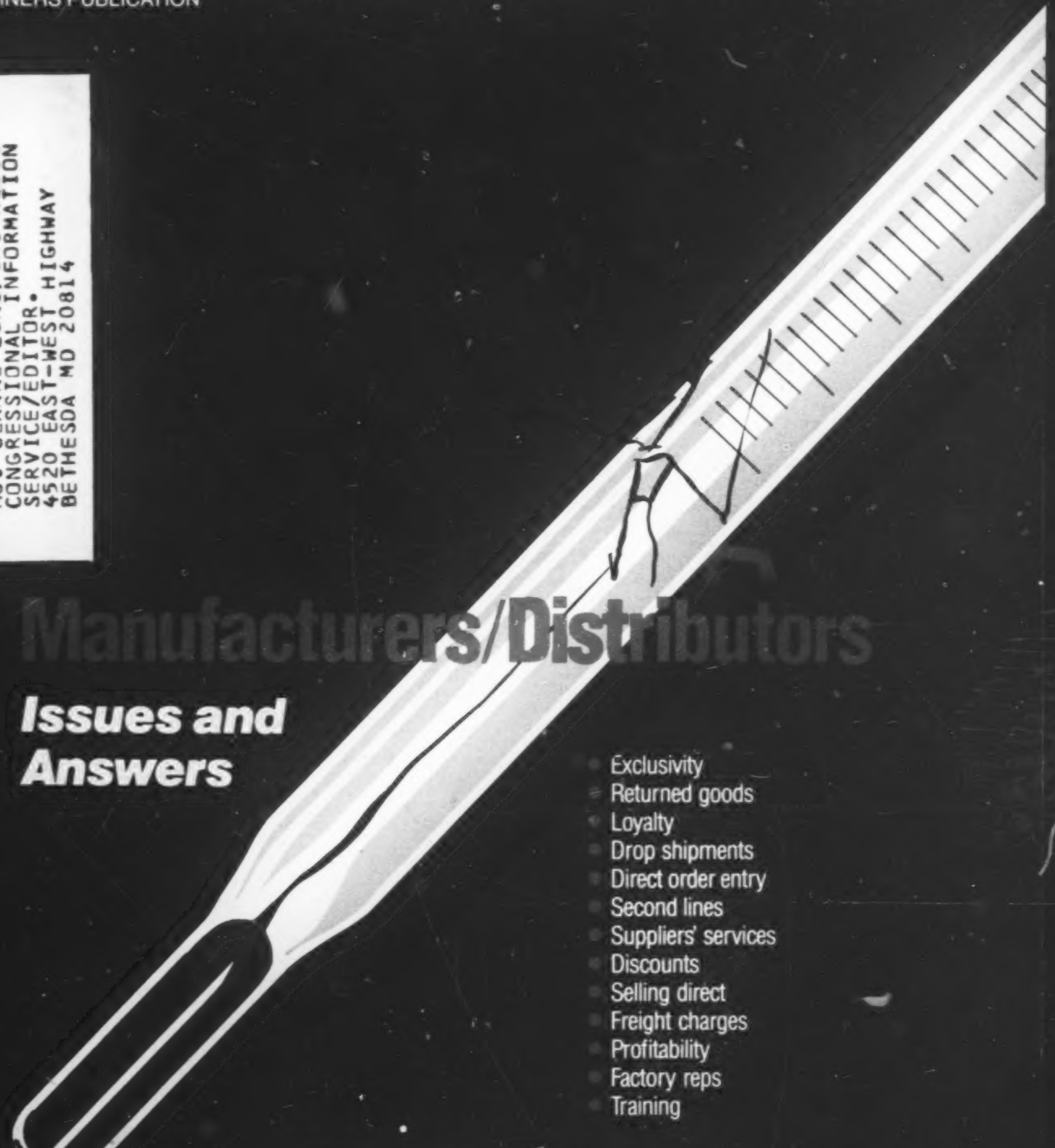

Manufacturers/Distributors

Issues and Answers

- Exclusivity
- Returned goods
- Loyalty
- Drop shipments
- Direct order entry
- Second lines
- Suppliers' services
- Discounts
- Selling direct
- Freight charges
- Profitability
- Factory reps
- Training

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Industrial Distribution

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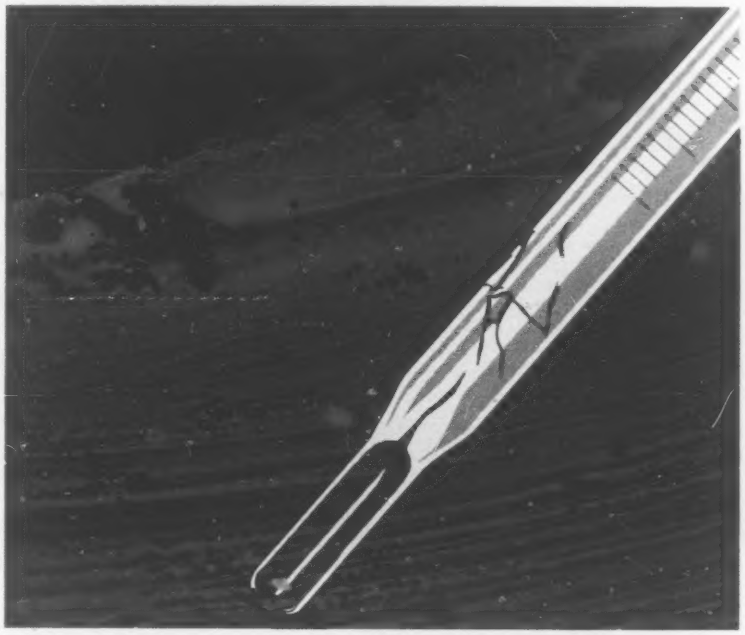

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COMING IN ID . . .

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INDUSTRY NEWS...

and CFO.

Accompanying the change in ownership will be management changes as well. Franz T. Stone will officially leave the board of directors after more than 50 years of service, as will John H. Goodwin, Jr., whose experience with the company also spans nearly five decades. "Under (Stone's) guidance," said the company, "Columbus McKinnon has grown from a small local company into a global manufacturer." Ladds stated that "In shifting the ownership of Columbus McKinnon...we have an additional stake in ensuring continued commitment and quality for our customers."

[continued on page 26]

Indicators...

The *NIDA/SIDA Industrial Distribution Index* for the month of November fell 7.4 points behind October to a level of 143.0. By comparison, in November of 1985 the national index stood at 147. In the four seperate geographic regions monitored by the index, each experienced a decline in performance on two fronts: month-to-month moving average as well as year-to-year comparisons. The most severe fall was recorded in the South, as it moved from 191.6 during October of last year, to 164.8 in November. This drop of 26.8 points is also 11.5 points behind the November 1985 index of 176.3...The *NIDA/SIDA Industrial Supply Inflation Index* (1977 = 100) remained unchanged between October and November at 165.3. One year earlier it stood at 162.9, having inched ahead 1.0% during the past 12 months...*SIDA'S Monthly Sales Trend Report* for November indicated significant slippage on a number of fronts, although some positive signs were noted in 12 month performance comparisons. For the 68 locations reporting nationally, 57 experienced falling sales between November and October, and 42 locations fell in November '86 to '85 comparisons. Performance throughout the area, which was down 16.60 points, was consistent with the four other areas: Area I (NC,VA,WV) down 16.85; Area II (FL,GA,SC,PR) down 11.36; Area III (AL,KY,MS,TN) down 19.12 and; Area IV (AR-,LA,OK,TX) down 17.57. Although only 3 of the 17 reporting locations in the oil-belt states of Area IV reported increased sales-,November '86 versus October '86, 10 of those same 17 also indicated increased sales in latest 12 month comparisons...The *ASMMA Monthly Index of New Orders* was also down for November, falling .5% to 119.7. In October of '86 the index stood at 120.3.☐

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BUSINESS REPORT

Sales gains still elusive

The business enthusiasm that greeted 1987 for some areas of distribution, most of it predicated on an expected upturn in manufacturing, has not yet materialized. A roundup of business conditions in various parts of the country reveals a very mixed picture with meaningful sales gains still eluding most distributors.

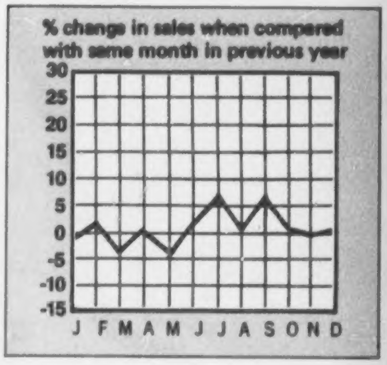
Pipe, valve and fittings distributors in the depressed Buffalo, NY area report some life returning to sales due, they believe, to the slightly improved demand for oil and petrochemical refining in the northeast. Parts and accessories in demand relate to the need for engines and turbine compressors for oil pipeline pumping. Some new high tech plants have also helped, but integrated circuit manufacturing, which would require fluid piping, is lacking, despite local incentives to bring some of this business in, and it is not likely to sprout with Japanese manufacturers continuing to gain a larger share of the American chip market.

In the midwest, cutbacks in automotive production continue to hurt metal fabricators and consequently many dependent businesses. Distributors here would like to see more industrial parks and new industries take up the slack of lost smokestack concerns, and in some areas this is occuring, but slowly and not in the numbers anticipated.

Distributors in Dallas-Fort Worth report new home construction off thus far this year, as the market has more than caught up with demand, but a building surge is underway in new stores and shopping centers reflecting population growth of the past few years.

In the south, paper mill activity and spotty construction activity have offset declines at automotive plants and related businesses such that distributors report they are "holding their own" compared to last year. No dramatic upsurge in business is anticipated.

December's figures show sales up a slight 1% nationally (see graph) over the same period last year. Receivables continue to improve, falling under the 40 day mark. **—Milt Ellenbogen**



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East So. Central	—	35	—	34
West No. Central	40	—	39	—
West So. Central	34	35	41	38
Mountain	39	36	39	40
Pacific	37	43	40	44
National	39	39	41	41

* Average days outstanding

SALES BY REGIONS (% change)	Dec.'86 vs. Nov.'86 Gen.	Spec.	Both	Dec.'86 vs. Dec.'85 Gen.	Spec.	Both	12 months '86 vs. 12 months '85 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	+2	−3	−1	+2	+11	+4	−9	+2	−4
Connecticut	—	−6	—	—	+23	—	—	+5	—
Massachusetts	−1	—	—	+1	—	—	−1	—	—
MIDDLE ATLANTIC: NY, NJ, PA	+1	+13	+9	−7	−3	−4	−5	0	−2
New York Metropolitan Area	+5	+12	+10	−8	−6	−7	−6	+2	+1
Upstate New York	0	−9	−4	−1	−11	−6	−3	−3	−3
Pennsylvania	−6	+26	+14	−7	+1	−2	−4	−1	−2
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	+15	+12	+13	+6	+4	+5	0	−1	−1
Georgia-Florida	+8	+18	+16	0	+2	+2	−1	−4	−3
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	−6	+11	+6	+6	−10	−6	−8	+1	−1
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	+18	+17	+17	+18	+1	+5	+4	−3	+1
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	−3	—	—	−27	—	—	−2	—
Ohio	−16	+21	+3	−13	−16	−15	−13	+2	−6
EAST SOUTH CENTRAL: AL, MS, KY, TN	—	+15	—	—	+11	—	—	+2	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+24	—	—	−18	—	—	−7	—	—
WEST SOUTH CENTRAL: AK, LA, OK, TX	−22	+10	0	−10	−15	−14	+6	−8	−5
Texas	—	+19	—	—	−5	—	—	−8	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	+21	−15	+2	+27	−17	+3	+8	−3	+2
PACIFIC: CA, OR, WA	+17	+16	+17	+16	+22	+19	0	+1	+1
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	+25	+19	+22	+13	+18	+16	+4	+3	+3
U.S. TOTALS	+13	+11	+12	+4	−2	+1	−3	0	−2

Manufacturers/Distributors

Issues and Answers

How are the forces of change in the late 1980's affecting relations between the typical supplier and his distributors? Results of **ID's Attitude Survey** *presented in detail on the following pages reveal how each side now views problems that have never been fully resolved and, in many cases, still strain distributor-supplier relations. The survey also reveals areas of agreement between suppliers and distributors, and it offers guidelines for building closer, longer-lasting and more productive relationships.*

Highlights

Manufacturers and distributors see the benefits to a manufacturer of selling through distribution. Half of both groups feel secure with most relationships but say the relationships are less profitable than five years ago.

Three-quarters of the suppliers feel they are more successful using more than one distributor in an area but an equal number of distributors *feel* suppliers reap more rewards if they use a single distributor in the area.

Two-thirds of the distributors polled feel second lines are necessary for some products. More than half of the suppliers of commodity-type products agree with an equal number of distributors that second lines are often necessary.

About this survey . . .

This report is based on two concurrent surveys: one to manufacturers (suppliers), one to distributors. Names were selected from the distributor and associate (manufacturer) memberships of national associations. Most questions were sent to both distributors and manufacturers to allow readers to compare attitudes about certain possible problems via easy-to-read tables. Hopefully, observing the "other side's" attitudes will allow distributors and manufacturers to move closer than ever to a real marketing partnership.

The report is in three parts: (1) a comparison of suppliers' and distributors' attitudes about the same potential problem areas; (2) attitudes of distributors alone about problem areas; (3) attitudes of suppliers alone about certain problem areas.

Note that in the TOTAL columns, the percentages under "Manufacturers," are not an average of the total number of responses from the following three types of manufacturers because the number of responses from manufacturers of Commodities, Non-Capital Goods and Capital Equipment varied for each group. The column shows percentages based on *total* number of manufacturers who responded to the questions.

For the purposes of the survey, the following definitions of types of manufacturers were used:

o COMMODITIES: commodities, supplies, small tools, components, etc.
o NON-CAPITAL GOODS: priced under $1000
o CAPITAL EQUIPMENT: priced $1000 or more

Distributors feel suppliers' sales training programs are inadequate but many distributors don't participate. Both agree about what costs each should bear.

There is dissatisfaction with supplier personnel's ability to train distributors' salespeople. Most distributors prefer full-time factory reps over manufacturers' agents.

Among the other distributor responses were these. Distributors agree that they should have prior approval before returning the goods and that they should pay the freight . . . there should be a restocking fee . . . a 2% early payment discount is fair (half the manufacturers offer 2% discounts) . . . drop shipments should be made without a penalty . . . freight should be prepaid on minimum orders . . . half intend to use suppliers' direct order entry systems . . . an industry-wide product numbering code would be helpful.

How to use these tables

These tables show distributors what their suppliers deem most important to them, and vice versa. If a response to a potential problem by either side is seen as a sign of dissension, then either side can take constructive steps to meet and solve the problem or, at least, to justify its action.

In the table "Advantages of Selling Through Distributors," most suppliers (72%) and distributors (66%) nearly agree that "wider market coverage and sales effort" is an advantage. Obviously, this does not present a problem.

More than three times as many distributors (28%) as suppliers (9%) see "distributor handles service/installation" as an advantage in selling through the industrial distributor. The supplier may not realize that if his distributor has a repair, retrofit or engineering service, the distributor may be able to sell more of his product, often in quantity.

Obviously, there is a serious problem when, for example, twice as many of the distributors (19%) as manufacturers(9%) feel that manufacturers bypassing the distributor to sell to the customer direct, is still among "the areas that inhibit manufacturer-distributor relationships."

Look at the tables for the widest gaps between suppliers' and distributors' responses. Recognize the differences as barriers to good relations and as problems you either have or will encounter as you add lines or anticipate changes in supplier policies. Recognize them also as a basis for constructive dialog with suppliers. In the tables where responses are from suppliers alone or distributors alone, note the degree to which the respondents view problem areas. If, for example, two-thirds of your peers (67%) feel that fewer than half of suppliers' reps are competent to train your salespeople, you have a strong case for complaining to your suppliers. And if manufacturers (48%) indicate that their distributors "offer market information" to their suppliers, then distributors who do not, ought to be aware that offering local market information to suppliers may be to their advantage.☐

MANUFACTURERS/DISTRIBUTORS

Most important to distributors and mfgrs are distributors' intimacy with the local market, more sales motivation and local stocks.

A growing trend? A quarter of the mfgrs say there are no advantages in selling direct.

No industry-wide problem here. Most mfgrs and distributors are secure with each other.

Exclusivity rates high among distributors and mfgrs as potential problem areas. Selling direct is more of

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
ADVANTAGES OF SELLING THROUGH DISTRIBUTORS								
Wider market coverage and sales effort	72	66	72	69	68	65	66	69
Local, more frequent contact	54	60	54	44	64	64	59	53
Local inventory/distributor warehouses	57	68	60	57	62	59	66	88
Distributor assumes credit risk	18	36	19	13	23	31	36	43
Distributor handles billing/invoicing	14	28	16	7	17	29	21	40
Mfgrs can ship in quantity	14	6	17	3	6	8	3	7
Distributor handles service/installations	9	28	8	18	17	38	25	19
Reduced sales expenses	24	29	25	15	19	33	28	22
Other	3	1	3	3	—	—	2	2
ADVANTAGES OF SELLING DIRECT								
Special/tech sales distributor can't handle	38	48	38	39	55	45	51	50
Higher profit margin/can be more competitive	31	26	33	34	26	22	30	26
Keep in better touch with market	22	13	23	21	21	13	13	10
Build brand loyalty with customers	20	13	21	19	23	15	11	12
None. No advantages. Not practical for our line.	25	46	26	19	21	51	43	43
HOW THEY FEEL ABOUT LOYALTY								
Very secure	13	9	13	10	11	12	6	9
Secure with most	46	54	46	51	38	55	55	52
Secure with some	32	25	31	33	38	27	23	24
Secure with very few	9	12	10	7	13	6	16	16
BARRIERS TO GOOD RELATIONS								
Cancellation practices	3	3	3	2	4	6	1	2
Returned goods policies	4	10	5	3	6	4	9	21
Quality of mfgrs' reps	6	11	6	8	4	8	14	12
Reps poor product knowledge	3	5	1	7	9	4	3	9
Sales/product training	3	2	2	7	4	3	1	2
Inventory quotas	4	6	3	7	4	8	6	3

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
MFGRS OFFERING EARLY PAYMENT DISCOUNTS AND WHAT DISTRIBUTORS DEEM FAIR								
1%	16	9	17	13	6	16	8	2
1½%	1	3	2	—	—	2	4	2
2%	51	68	54	50	38	57	71	79
2½%	—	1	—	—	—	1	1	—
3%	3	5	3	5	9	4	2	10
Over 3%	1	7	1	—	2	4	11	5
On delivery	—	2	—	—	—	2	3	2
Ten days	44	43	44	47	38	49	41	36
Twenty days	1	12	2	—	—	13	15	3
Thirty days	14	26	14	13	15	25	23	35
NO. OF SOURCES OF SUPPLY CONSIDERED ADEQUATE OF MFGRS. AND DISTRIBUTORS								
FOR FAST TURNOVER COMMODITIES . . .								
One	28	11	30	29	22	16	11	4
Two	56	52	57	47	58	55	51	46
Three	16	37	13	24	19	29	39	50
FOR HIGHER TICKET ITEMS . . .								
One	60	46	58	68	78	58	39	37
Two	36	42	36	32	22	33	51	43
Three	5	12	5	—	—	10	11	20
MFGRS OFFERING FORMAL SALES TRAINING PROGRAMS . . . AVG. NO. OF DISTRIBUTORS WHO CONSIDER THEM ADEQUATE								
At-factory programs	48		46	55	70			
At-distributor programs	81		80	98	94			
Other-site programs	27		27	31	43			
Net total	87	22 avg.	85	100	100	23 avg.	23 avg.	20 avg.

Distributors prefer early payment discounts. Generally both sides agree on 2%.

Both sides agree on two sources for high-turnover items, one source for higher-ticket items.

Nearly all mfgrs offer distributors sales training but only one-fifth of the distributors feel programs are adequate.

a problem for distributors as expected. Mfgrs are more defensive about drains on profit and services they offer distributors.

Mfgrs sense more rapport with distributors; distributors see little change.

Both agree relationship is less profitable than 5 years ago.

Distributors prefer to be exclusive; mfgrs opt for multiple distribution.

Both agree that prior approval is fair and the distributor should pay the freight. Distributors deem 10% restocking fee fair; half as many see 10% or less as fair.

Most on both sides agree on no charge to distributors on drop shipments.

Freight charges	3	5	3	—	—	7	4	2
Suggested list prices	3	2	3	5	2	3	1	3
Price change notice	3	2	3	2	2	1	1	3
Promotional/sales support	2	2	3	2	2	2	3	2
Discounts	17	9	20	10	9	8	9	10
Exclusivity	15	18	15	16	13	18	20	16
Delivery	14	14	15	8	17	20	9	12
New products	2	2	1	2	6	2	2	2
Selling direct	9	19	8	10	15	10	23	26
CHANGE IN RELATIONSHIP: FRIENDLINESS								
Friendlier	51	25	51	54	53	30	20	26
Same	29	40	29	30	26	41	42	35
Less friendly	21	35	20	16	21	29	38	39
CHANGE IN RELATIONSHIP: PROFITABILITY								
More profitable	26	20	26	30	35	21	23	14
Same	27	28	26	22	33	23	27	35
Less profitable	47	52	48	48	33	55	50	51
EXCLUSIVE DISTRIBUTORSHIPS								
Use just one qualified distributor in an area	23	72	21	33	39	77	74	60
Use more than one qualified distributor in an area	77	28	79	67	61	23	26	40
MFGRS' RETURNED GOODS POLICIES AND WHAT DISTRIBUTORS DEEM FAIR								
5% restocking fee	2	11	2	—	4	12	11	5
10% restocking fee	23	31	26	15	15	28	36	26
15% restocking fee	33	11	34	36	32	14	9	9
20% restocking fee	12	4	11	10	11	3	3	7
No charge if resalable	14	34	14	11	15	32	26	52
Must have approval	68	62	72	58	68	61	59	71
Distributor pays freight	57	55	59	50	62	52	59	53
Limited to % of sales	16	28	17	21	23	30	30	22
Other	14	6	16	15	17	6	5	7
No answer	8	19	4	16	11	18	23	16
MFGRS' DROP SHIPMENT POLICIES AND WHAT DISTRIBUTORS DEEM FAIR								
No penalty	61	64	59	60	72	63	68	60
With a surcharge	6	5	6	7	4	7	1	9
Negotiable/depends	11	25	13	7	4	20	27	29
With minimum orders	9	19	10	7	4	17	19	21
Distributor pays freight	13	15	12	13	19	18	16	7
Other	12	3	13	13	11	1	5	3
No Answer	6	3	5	7	4	6	1	—

Nearly 9 out of 10 mfgrs say no more than half of their key distributors use at-factory programs; most mfgrs say no more than half use the programs at the distributor's site.

Distributors will pay for meals and lodging but feel mfgrs should pay for transportation.

Most mfgrs and distributors agree distributors should pay some costs at at-distributor programs.

Two out of five distributors accept a policy of prepaid freight on minimum orders. A third of the mfgrs ship F.O.B.

Two-fifths of the mfgrs, nearly half of the distributors anticipate use of D.O.E.

Half of the mfgrs get local market data from their distributors.

PROPORTION OF KEY DISTRIBUTORS USING AT-FACTORY PROGRAMS								
Less than 10%	40		42	41	41			
About 10%–25%	35		34	32	22			
26%–50%	12		12	8	16			
Over half	14		12	19	22			
PROPORTION OF KEY DISTRIBUTORS USING AT-DISTRIBUTOR PROGRAMS								
Less than 10%	12		13	8	5			
About 10%–25%	28		27	28	29			
26%–50%	26		24	28	26			
Over half	34		36	36	40			
WHAT DISTRIBUTORS SHOULD PAY FOR AT AT-FACTORY TRAINING PROGRAMS								
Distributor staffs' meals	14	33	15	21	14	35	30	35
Distributor staffs' lodging	27	36	27	24	24	35	38	36
Staffs' transportation	87	62	86	95	92	58	66	64
None/nothing	10	19	11	3	5	17	18	21
WHAT DISTRIBUTORS SHOULD PAY FOR AT AT-DISTRIBUTOR TRAINING PROGRAMS								
Distributor staffs' meals	45	58	44	47	53	61	57	53
Distributor staffs' lodging	55	51	52	60	77	54	50	45
Staffs' transportation	57	47	55	63	70	48	46	45
None/nothing	38	21	41	43	23	16	22	26
MFGRS' FREIGHT COST POLICIES AND WHAT DISTRIBUTORS DEEM FAIR								
F.O.B. our plant or warehouse	36	27	32	42	51	33	23	24
Freight prepaid on minimum orders	46	43	51	44	38	30	51	52
Dollar allowance on minimum orders	4	5	5	3	2	5	5	5
Prepaid or allowance on certain products	10	26	10	8	11	27	26	24
Other	15	2	16	13	9	3	3	—
No Answer	3	5	2	5	—	7	6	—
ANTICIPATING USE OF DIRECT ORDER ENTRY BETWEEN MFGR AND DISTRIBUTOR								
Between supplier & distributor	42	48	43	48	45	50	47	47
Do not anticipate direct order entry	29	23	29	20	23	24	23	21
Not sure/don't know	29	29	28	33	32	26	30	32
Between distributor and end-users		31				30	30	37
MFGRS WHO DEVELOP MARKET POTENTIAL DATA FOR DISTRIBUTORS								
.. for all distributors	19		19	19	23	—	—	—
.. for key distributors	33		34	42	30	—	—	—
.. none/no answer	47		46	36	45	—	—	—

(Continued on page 50)

MANUFACTURERS/DISTRIBUTORS

Half the mfgrs offer market data; only a quarter of the distributors feel it's not important.

Most distributors want technical "high-tech" training. Nearly as many in both groups feel a need for improved communications. Distributors need new high-tech products.

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
IMPORTANCE OF MFGRS' MARKET DATA TO DISTRIBUTORS								
.. very important		26				25	24	31
.. somewhat important		49				42	54	54
.. not very important		24				32	22	16
HOW DISTRIBUTORS WANT MFGRS TO HELP THEM EXPAND INTO HI-TECH MARKETS . . . HOW MFGRS PLAN TO HELP								
Improve communications	30	29	31	29	37	32	26	28
Introduce high-tech products	27	29	27	29	21	32	30	24
Technical training	—	48	—	—	—	52	45	48
Advertising support in high-tech markets	15	23	16	14	16	25	22	22
Sales training	24	27	23	29	35	20	33	28
Provide market data	—	31	—	—	—	34	25	40
Provide engineering help	26	31	28	17	21	34	32	24
Other	7		8	2	7			
Not applicable	34		34	37	28			

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
MFGRS: IS A STANDARD PRODUCT NUMBERING CODE PROBABLE IN THE NEAR FUTURE? DISTRIBUTORS: WOULD AN INDUSTRY-WIDE CODE FOR THE PRODUCTS YOU SELL BE HELPFUL?								
Probable	63	—	66	46	54	—	—	—
Not probable	37	—	34	55	46	—	—	—
Helpful	—	53	—	—	—	42	59	64
Not helpful		47	—	—	—	59	41	36
WHY/WHY NOT?								
Ordering/buying easier	10	29	11	8	8	18	40	22
Fits with computer or data processing	15	26	15	15	—	13	32	35
Distributor/customer can compare/use different sources	6	3	8	8	—	—	2	9
Too many variations	17	9	19	19	23	13	6	9
Too costly	2	3	1	—	8	—	4	4
No industry standards	9	9	8	12	15	21	4	—
Have own system	16	9	15	15	23	8	8	13

Most mfgrs see the product code as probable; half of the distributors agree it would be helpful. Reasons: easier ordering and buying; compatability with the computer.

ROOTS OF THE PROBLEM

This and past surveys show that relations between suppliers and distributors depend on attitudes about: manufacturers selling direct . . . exclusivity in a marketplace . . . early payment discounts . . . security (loyalty) . . . receivables . . . required profitability . . . minimum annual sales of a line . . . sustained minimum inventory . . . second competitive lines . . . profit margins . . . freight allowances . . . returned goods . . . quality of manufacturer-supplied sales training . . . delivery . . . technical and promotional support . . . product quality . . . data provided on local markets . . . BUY AMERICAN . . . responsibility for potential liability action . . . customer services . . .

(Continued on page 52)

MANUFACTURERS

	All responses (avg.)	Mfgr's of Commodities	Mfgr's of Non-capital goods	Mfgr's of Capital equip.
MFGRS ADDING DISTRIBUTORS IN GIVEN MARKETS AND THE REASONS:				
To handle new products	16	16	10	22
New emphasis on distribution	10	11	8	9
Because distributors use multiple sources	23	25	13	16
To improve market share	31	33	25	36
To serve other industries	29	30	25	36
MFGRS REDUCING THE NUMBER OF DISTRIBUTORS IN GIVEN MARKET AREAS AND THE REASONS				
Due to the products' complexity	4	5	3	2
To strengthen current distributors	17	17	18	29
Result of a master distribution plan	3	3	3	2
NO CHANGE IN NO. OF DISTRIBUTORS	16	15	18	16
REQUIREMENTS FOR HANDLING GIVEN MFGRS' LINES				
Minimum inventory	48	45	66	72
Minimum annual sales	42	38	60	53
Sales training	33	31	42	47
Minimum sales coverage	30	28	37	36
Provide service and installation	11	11	8	19
Other	6	7	7	4
MFGRS WHO HELP DISTRIBUTORS PLAN SYSTEMS SELLING CONTRACTS WHICH MAY EXTEND OVER THE MFGRS' OWN LINES				
Will help	25	21	42	43
Does not help	67	72	50	47
MARKET INFORMATION FED TO MFGRS FROM DISTRIBUTORS				
Distributors provide local data	48	50	51	46
Distributors do not offer the data	52	51	49	54
DISTRIBUTOR PARTICIPATION IN THEIR SUPPLIERS' DIRECT ORDER ENTRY SYSTEMS				
Open to all with compatible equipment	29	31	14	33
Must stock our products	37	36	41	43
Must purchase the complete product line	14	11	14	10
Exclusive handling of our line	7	7	7	—
Other	21	21	31	19
HOW MFGRS FEEL ABOUT DIRECT ORDER ENTRY WITH DISTRIBUTORS VIA COMPUTER				
Will decrease the number of sources a distributor uses	60	61	69	57
No effect on the number of sources	33	31	31	33

DISTRIBUTORS

	Distributors (% of responses)			
	All respondents (avg.)	with up to 25 suppliers	25–100 suppliers	100–plus suppliers
ARE SECOND LINES NECESSARY WHEN PRIMARY LINE SALES SELL WELL AND ARE PROFITABLE?				
Generally second lines are necessary	41	44	39	40
Generally not necessary	29	34	27	22
Depends on the product	30	21	34	38
HOW MANY OF YOUR SUPPLIERS REPS ARE COMPETENT TO TRAIN YOUR SALESPEOPLE ABOUT PRODUCT BENEFITS, APPLICATIONS AND/OR SALES OPPORTUNITIES?				
Under half are competent to train salespeople	67	65	66	72
Half or more are competent to train salespeople	33	35	34	28
WHO WOULD YOU RATHER DEAL WITH?				
Suppliers' factory salespeople (reps)	53	54	54	50
Independent manufacturers' agents	12	14	9	14
HOW OFTEN ARE YOU CALLED ON BY SUPPLIER SALESPEOPLE?				
Once a week	7	9	4	11
Once a month	44	37	45	53
Once every 3 months	35	27	42	36
Once every 6 months	8	16	5	—
Once a year	5	10	4	—
Never	1	2	1	—

MANUFACTURERS

Mfgrs add distributors to improve market share and the industrial base.

Mfgrs reduce the number of distributors to strengthen others' sales and profit potential.

Mfgrs mandate minimum inventories and annual sales of their lines. Service/installation are low priority.

Mfgrs generally don't help plan systems contracts beyond their own lines.

Half of the distributors offer suppliers market data.

Mfgrs offer distributors direct order entry (D.O.E.) if they carry their line, even as non-exclusive.

D.O.E. is an incentive for distributors to carry a mfgr's line.

DISTRIBUTORS

Most distributors see the necessity of second lines, although the product may make a difference. Second lines are preferred by most distributors even when the first line is profitable.

An old story? Distributors still feel that fewer than half of the suppliers' own reps are competent to teach product benefits and sales opportunities.

Full-time suppliers' representatives are preferred over independent manufacturers' agents due to the reps' pipeline to the source and product knowledge.

Monthly and quarterly calls on distributors are most common. Once-a-week calls may be considered overkill and are less common as are semiannual and annual calls on distributors.

Compiled by Business Marketing Research, Bronxville, NY

Showcase review: Hose and accessories

While experts see only modest *real* growth in hose and accessories over the near term, they detect isolated signs of new life in long-dormant industries.

It is an indication of how much the economic times have changed when the gurus of the industrial hose industry can discuss an annual growth rate ranging from 1-2% in positive terms.

But according to Dominic Olivieri, vice president-management information with Washington-based Rubber Manufacturers Assn. (RMA), U.S. consumption of industrial hose between 1986 and 1987 will increase by only about 1.27% from $1.16 billion to approximately $1.17 billion.

The forecast prepared by the RMA's Hose and Belting Statistical Committee postulates an annual growth rate that will remain relatively listless through the 1980's, rising to an estimated $1.285 billion by the year 1991, an increase of 2.7% over the previous year (see chart).

At the same time, the RMA committee producing the forecast pointed out the difficulty of making prognostications concerning the market outlook. The Committee acknowledged "economic uncertainty" for the industry in view of many unresolved economic variables including the impact of tax reform and "the industry's dependence upon the performance of the heavy industries such as automotive, construction, mining and steel."

Doug Harper
Senior Editor

NAHAD looks ahead

The president of the National Assn. of Hose & Accessory Distributors is Edward B. Fabacher, Jr. who is also president of Fabacher Inc. located in Harvey, LA. According to Fabacher, "We don't see anything in the marketplace before 1989. It's going to be very soft and there are more people looking to diversify by going into specialty items

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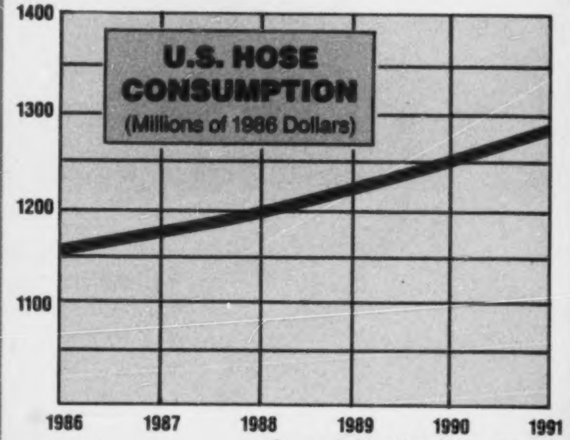
DOMESTIC MANUFACTURERS' SALES OF HYDRAULIC HOSE AND HOSE ASSEMBLIES
($Millions)

Year	Domestic Manufacturers' Sales	Annual % Change
1972	$ 299.2	—
1973	376.2	25.7%
1974	527.8	40.3
1975	566.9	7.4
1976	514.3	−9.3
1977	678.7	32.0
1978	832.0	22.6
1979	1,056.2	26.9
1980	1,134.5	7.4
1981	1,018.2	−10.3
1982	933.0	−8.4
1983	995.3	6.7
1984	1,200.7	20.6
1985	1,309.9	9.1
1994*	2,623.2	8.1

*Projected

SOURCE: U.S. Dept. of Commerce



Source: Rubber Manufacturers Assn.

Hose and accessories review . . .

which, in many cases, is hoses."

Geographically, Fabacher feels that the State of Florida in particular and the Southeast in general appear to have bright futures and "They expect steady and continued growth in construction primarily." New England, he says, continues to show a steady increase in business.

The Midwest, says Fabacher, racked by labor disputes and bankruptcies, is regrouping and he sees the Chicago area again starting to "boom" in the near future.

The mining areas of the West are operating at the same rate that they have in last few years and Fabacher doesn't predict any significant changes in the near future. On the other hand, he sees growth in the aerospace industry following a stormy 12 months in the wake of the space shuttle *Challenger* disaster. But with recent Space Station contracts awarded to Martin-Marietta and Boeing, he expects to see the pace of business pick up.

Oil, still in the doldrums, does not indicate any new vitality in the next few years, according to Fabacher. "In the Texas, Oklahoma, Louisiana marketplace, we think oil bottomed out in the Summer of 1986 and the trend is slowly turning up, but at a much slower speed than it fell.

"Since the first of the year here in Louisiana, we've had people buying from us who haven't bought anything in two years. And where some customers would bring back hoses for repair, they now are buying new hoses plus a couple of spares which, for us, is like getting an extra present at Christmas. But I don't think the oil fields are going to recover to a steady pace for at least another year-and-a-half. Oil prices, which are right now hovering around $18-$19 per barrel, will have to get up to $22 a barrel and remain that way for six months before sales of hose and accessories will really start to take off."

In terms of pricing of product over the next 12-18 months, Fabacher doesn't anticipate any major changes barring unforseen inflationary pressures. "We gear ourselves to inflation in the marketplace and when inflation goes up, the prices go up in hose and fittings," he comments, adding that several domestic manufacturers are anticipating "a very slight" price increase in 1987 although it is not expected to be "across the board." "We have had practically no price increases in the last year and we may have a very modest one this year which really falls in line with inflation," Fabacher says.

NAHAD's president in 1986, James R. Elliott, president of Associated Hose Products located in Portland, OR, agrees with Fabacher saying that he expects to see business over the next year "about on a par with the last 12 months," while commenting that his firm will be putting more emphasis on what he describes as *high technology* hoses.

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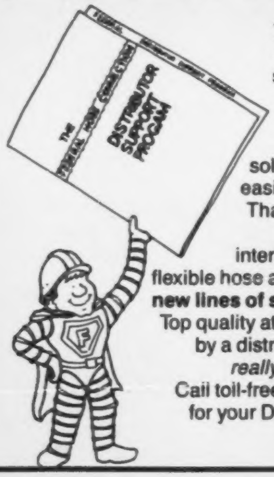

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The hydraulic hose and assembly market

According to the business research firm, Business Trend Analysts, after several years of decline in early 1982 and 1983, the hydraulic hose and hose assembly market began to feel the effects of recovery starting in 1983. In that year, sales of hydraulic hose and assemblies increased 6.6% over the previous year.

The primary impetus for this new strength was new vigor in motor vehicle production where hydraulic hose is used in everything from power steering and brakes to automatic transmissions. As a result, sales leaped ahead by 20.6% in 1984, the best year enjoyed by the industry since 1979.

Since that time, the growth of hydraulic hoses and fittings, hit hard by the decline of agriculture, steel, oil and the increase in vehicle imports, has fallen to more subdued levels, estimated at less than 9% in 1985, under 6% in 1986, and expected to hover around 2-3% in the next five years, paralleling the projected growth of the industrial hose market.

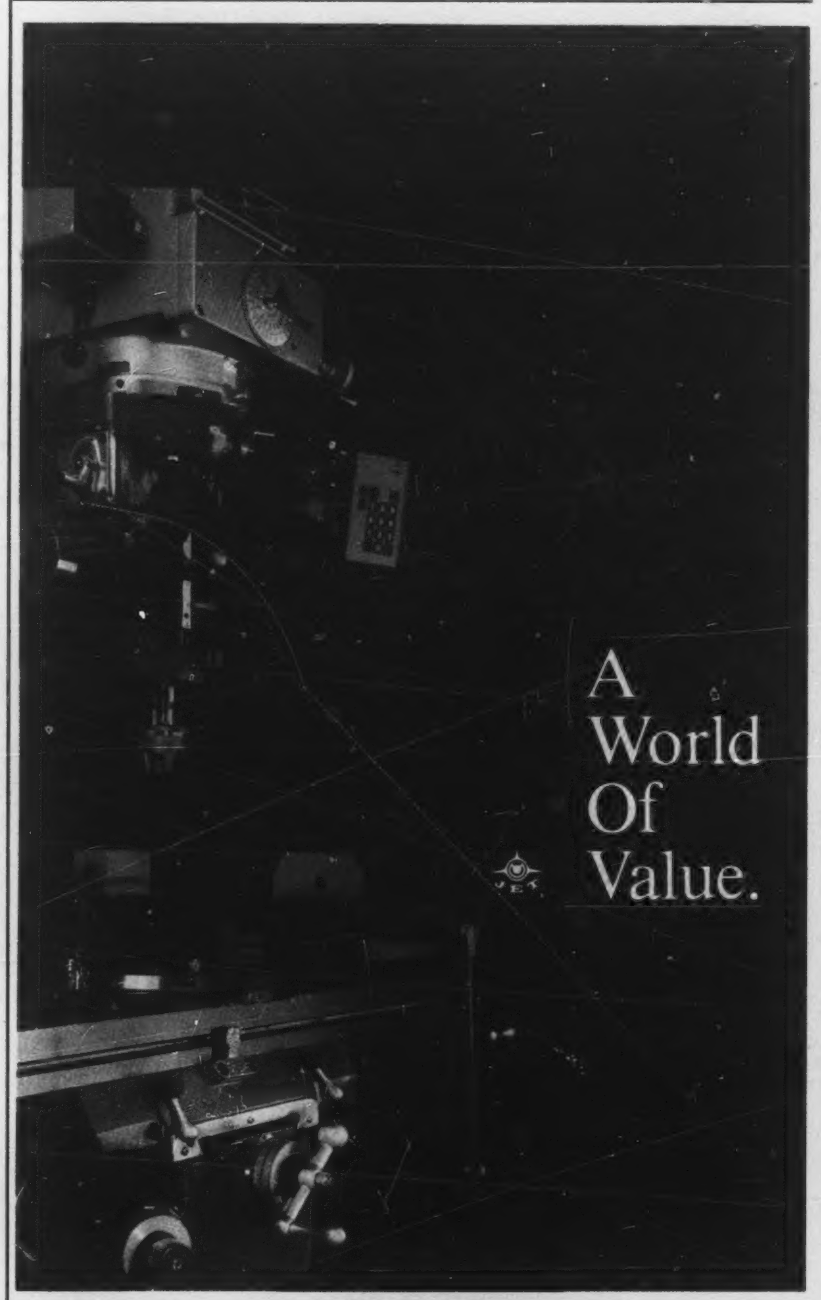
upon the sales of hoses that are unique for particular applications as opposed to standard lines that are carried by the great majority of distributors. We're becoming increasingly involved in such applications as specialty chemical handling, hoses that are uniquely flexible compared to standard hose and extreme high and low temperature hose."

Elliott sees distributors methodically moving away from *commodity* hoses. "We carry commodity hose but we basically sell those items because we have to. When you say to a purchasing agent, 'I have these hoses and here is the price,' he usually turns around and replies 'Yes and so do the other 17 hose distributors in town'."

Some specific areas of strength

Larry Lehnerz, hose product/market development manager, for Gates Rubber Co. in Denver notes that "In 1987 we see the market as being essentially flat with minimal-to-no growth." Lehnerz attributes the tight hose market situation to the relatively slow pace of American industry in general and the diminished oil market in particular. "Whether it's mining, heavy manufacturing or whatever," says Lehnerz,

'We've had people buying from us who haven't bought in several years.'
Fabacher



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Hose and accessories review . . .

''the overall market is soft right now.''

He points out, however, that Gates currently perceives some specific areas of market strength for industrial hose which include food processing and distribution, industrial chemicals, and in some other specialized *niche* markets which he declined to identify.

In terms of pricing, Lehnerz says Gates made a modest increase in its prices this month.

Geographically, he notes that Gate's strongest sales in 1987 were in the Northeast, ''although it might be a fluke,'' he added. In 1986, he reports that the South and the East showed more vigor than other areas of the nation.

"Moderate" growth in '87

While asking not to be identified, a spokesman for one of the major U.S. hose producers said that he sees the market growing about 3% with ''our company going up considerably more than that.''

He added that there are still areas of business—coal, steel, oil—that are depressed but that he sees moderate growth in the rest of the economy. While the construction industry is currently viewed as the backbone of the hose industry, he points out that although oil exploration has fallen to low levels, oil transport, tanker hose, and dispensing hose are still doing well. ''Agriculture is an area that we don't see as being too bad although it's certainly diminished a lot from the OEM point of view. But the aftermarket still seems to be pretty good.''

'The importers are standing with their backs to the wall.'
Reichel

Speaking of hose prices, he notes that ''They are all moving. We've seen some of our competitors raise prices already and we're raising our prices soon but it's been a long time since they have moved at all. Prices haven't changed since 1985 when there were some modest increases but nothing at all in 1986. So I'm sure the importers will go along with price increases, considering the weakened state of the dollar. As a matter of fact, they're going to be happy about it.''

An importer's view

Manfred F. Reichel is president of Semperit Industrial Products, Inc., an Austrian hose manufacturer which claims it is one of the two largest importers of hose into the U.S.

Reichel says that he expects the hose business ''to show a very modest growth compared to last year. Maybe in the area of zero-to-three percent.'' Reichel says that he expects prices in the

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short term to remain unchanged from last year although noting that since Semperit's product is manufactured in Austria, the recent decline of the U.S. dollar against other currencies "will eventually force us to adjust our pricing."

He also points out, however, that since imports comprise a relatively small share—10%—of total U.S. consumption, "the price is determined by the major domestic manufacturers. As a result of the slow growth in the hose business and the excess capacities of U.S. manufacturers, "they will probably continue to fight on pricing regardless of whether the importers can match the pricing or not."

Reichel notes bemusedly that when the dollar was strong, the major U.S. manufacturers attributed weak hose prices to importers who were keeping the prices low. Now, says Reichel, "The importers are standing with their backs to the wall more or less since the dollar has dropped almost 40% against major European currencies and the Japanese yen and the prices still don't go up."

There are two reasons for this phenomenon, says Reichel: 1. The domestic manufacturers want business and fight each other on pricing and 2. None of the importers wants to give up a substantial market share.

The feeling among importers, says Reichel, "Is that if you have been selling hose in the U.S., you have to continue even if your margins get substantially lower, since the U.S. is still one of the largest hose consumers in the world.

"In the hose business," maintains Reichel, "distributors and end users will only buy an imported product if it is equal to or lower-priced than a domestic hose."

Reichel points out that the value of the Austrian *shilling* is pegged to the West German *mark* at a fixed rate of about seven-to-one. To illustrate the strong decline in the value of the dollar, he says the mark has fallen from a peak in 1985 of $3.30 down to about $1.75-$1.80 currently.

Part of the drop, Reichel concedes, is compensated for by raw material purchases which are frequently valued in U.S. dollars causing the weak dollar to work to the company's advantage. Nevertheless, he emphasizes, there is still a substantial drop in the profitability of hose products imported into the U.S. The exceptions are the currencies of those countries—Taiwan, Korea, Hong Kong, Malaysia—which are linked to the dollar. "In the future, these countries will take greater advantage of supplying the U.S. because their monetary rate of exchange will work to their benefit."

While disagreeing on the timing and magnitude of the next boom in the perpetual boom and bust cycle that has characterized the hose and accessory market over the last decade, there is a consensus among most industry observers that at least the worst, for now, is behind them. □

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April 1987

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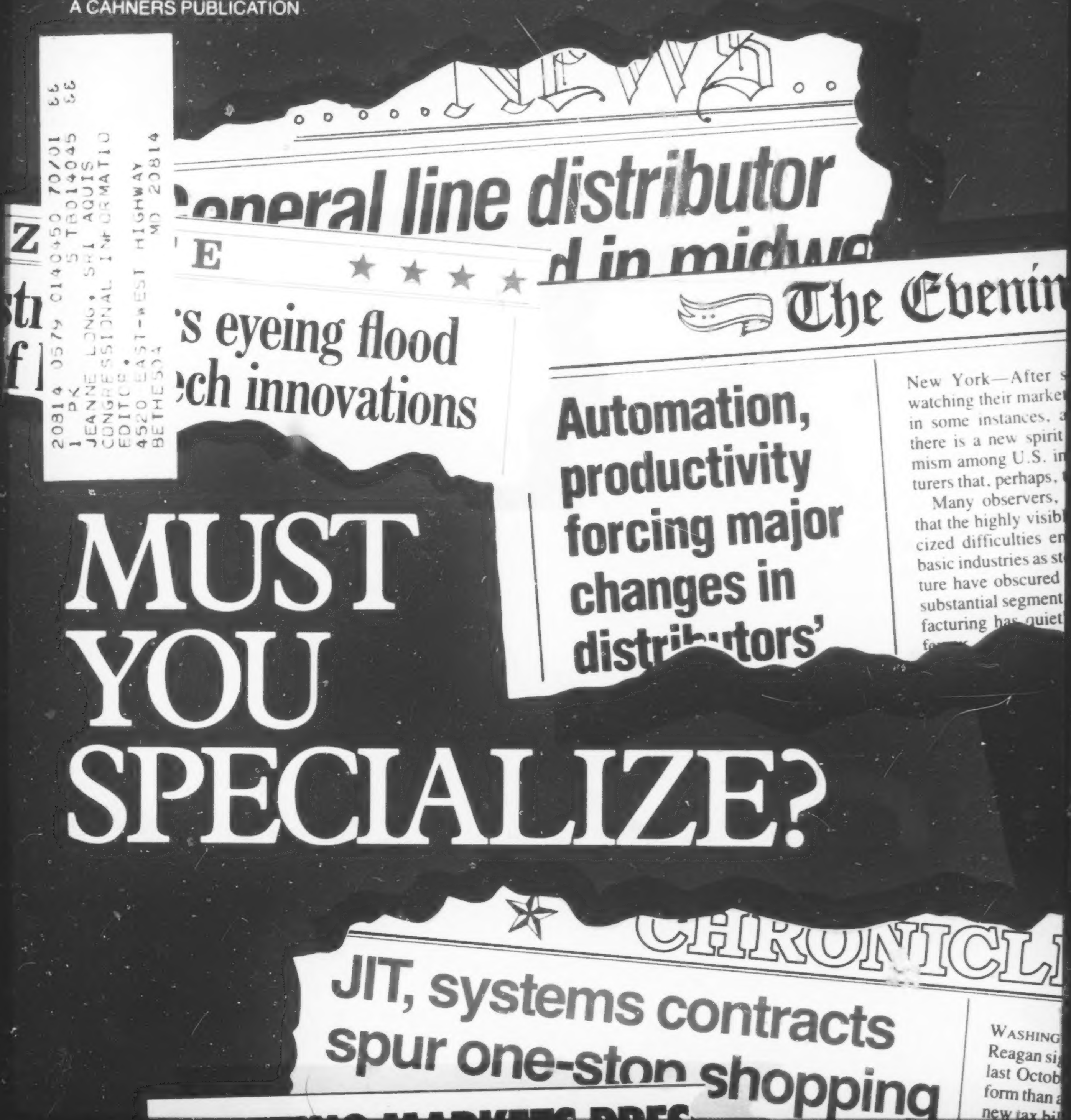
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Automation, productivity forcing major changes in distributors'
New York—After s watching their market in some instances, a there is a new spirit mism among U.S. in turers that, perhaps,
Many observers, that the highly visibl cized difficulties en basic industries as st ture have obscured substantial segment facturing has quiet
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JIT, systems contracts spur one-stop shopping
WASHING Reagan si last Octob form than a new tax bi

MUST YOU SPECIALIZE?

ID Industrial Distribution

VOL. 76, NO. 4/76th yr. A CAHNERS PUBLICATION APRIL 1987

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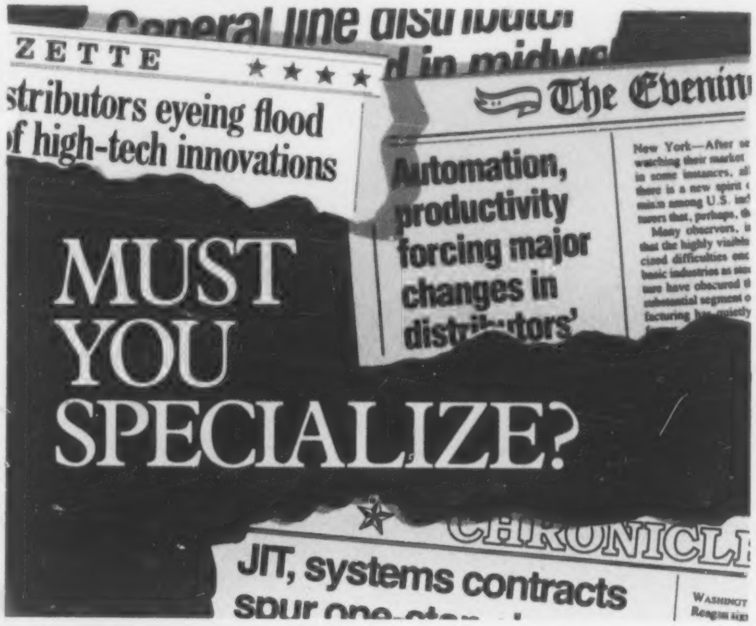
General line distributor
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on the cyclical manufacturing business. Syscon had revenues of $117 million with a net income of $4.4 million for 1985, and its 1986 sales were $135 million with a net income of $5.4 million.☐

Valin Corp. buys Metropolitan Supply—extends its reach

Sunnyvale, CA—Valin Corp. has acquired the Metropolitan Supply Co. of Carson, CA, creating one of the largest fluid power and instrumentation distributors on the west coast.

The agreement included the outright purchase of 100% of Metropolitan's stock. The specific terms of the agreement were not made available.

With Valin's purchase of Metropolitan, Alan B. Vidinsky will continue as the merged company's president, and Dan W. Ruple, former owner and president of Metropolitan, will stay on as vice chairman.

A done deal: Dan W. Ruple *(l)*, Andrew K. Lorenz and Alan B. Vidinsky *(r)*, sign the agreement merging Valin and Metropolitan.

Vidinsky said that by combining both company's strengths, Valin's sales should be in excess of $20 million this year. In addition, the deal gives Valin, a company that has traditionally sold products in northern California and western Nevada, a presence in southern California and Arizona markets.

Valin has been strong in the process instrumentation and fluid components field, while Metropolitan has been a leader in the distribution of Parker Hannifin hydraulics, pneumatics and fluid power products.

The company also announced the appointment of two new sales managers, Scott Mobley, who will serve in the process instrumentation and fluid components division, and Ronald Praz, for the hydraulics, pneumatics and fluid power division.

With operating locations in Concord and Sacramento, Valin was founded in 1974 by Vidinsky and Andrew K. Lorenz, the company's current vice president. In contrast, Metropolitan is one of the oldest industrial firms in the west, having begun operations in Los Angeles in 1916.

Valin has purchased all of Metropolitan's divisions, including Southern California Instrumentation, Southern California Pneumatics, Southwest Fluid Components and Metro Supply. The combined companies now cover all of California, Nevada and Arizona from 10 locations with more than 100 employees.

No layoffs have been planned as a result of the merger.☐

Fairfield Mfg. sold to NEOAX for $70.5 million

New York, NY—Banner Industries and its recently acquired subsidiary, Rexnord Inc., have agreed to sell Rexnord's Fairfield Manufacturing Co. to the NEOAX company for $70.5 million in cash. Industry sources speculate that the sale of this division will be used by Banner to help repay the estimated $260 million debt it incurred to finance its acquisition.

The announcement was made jointly by Rexnord's chairman and CEO Donald Taylor and Jeffrey Steiner, chairman and CEO of Banner Industries, Inc. Banner had acquired 97% of Rexnord in a tender offer that expired on February 27. Before a tender offer for Rexnord had been made, the company had intended to reorganize its businesses, and ultimately divest itself of five divisions. To date, two have been sold,

[continued on page 12]

Indicators...

The *NIDA/SIDA Industrial Distribution Index* for the month of January was up 10.9 points to 139.0, from a previous level of 128.1 in December of last year. In all four of the reporting geographic areas, activity had increased substantially. The East was up 9.8 points to 134.9; Midwest up 8.8 to 119.2; West up 5.0 to 148.2; and the South was up 25.5 points to 177.1. Although the South's performance demonstrated a significant gain, it was only 1.5 points ahead of its January 1986 level of 165.6. Similarly, the gain of January's performance level (139.0) over December's, is tempered by the fact that in January of 1986 the index stood 149.6... The *NIDA/SIDA Industrial Supply Inflation Index* (1977 = 100) stood at 165.7 for January, up only 1.4% over last year's standing of 163.4. In December, the index was 165.6, a percent increase of only 0.1%...*SIDA's Monthly Sales Trend Report* for December showed signs of a healthy rebound, although some of the improved performance can be attributed to increased business activity before the 1986 Tax Reform Act officially took affect. For December to November comparisons, the index was up 12.19, however, in year to year comparisons, its overall increase was only .15. Of the 66 locations reporting sales performance, 52 noted increased sales from December 1986 over December 1985, and even 8 of the South's 11 locations noted improved activity. In this area the index climbed 30.70 points in month to month comparisons, but was down 2.47 points in December 1986 to December 1985 activity....The *National Machine Tool Builders' Assn.* reported that January net new orders for machine tools stood at $147.75 million, an 8.2% rise from the December 1986 level of $136.55 million.

BUSINESS REPORT

Concentration on marketing

With 1987 appearing more and more as a "not so good" year, distributors are pressed to give greater attention to the marketing aspect of their business, and the focus has turned to eking out every ounce of business possible from their customers and prospects.

Two distributors, one on each coast, have employed similar tactics. Both general liners, they have conceived a plan to highlight at least one group of products per month so that there is something going on to crow to their customers about every single month of the year. Each month, they use a mailing, culling from their master list those prospects whose end products coincide with their "specials."

A New England distributor specialist is using another idea. Having taken measure of all of his customers and prospects in a given radius around his headquarters, he pledges, like Domino Pizzerias, two hour delivery or you, the customer, get a discount.

Innovative marketing ideas, such as the above, require a little more time and effort in generating fresh and lively literature, and one way to go is desktop publishing equipment using special software to generate attractive text and graphics. These will probably be hot items on many distributor checklists the remainder of the year.

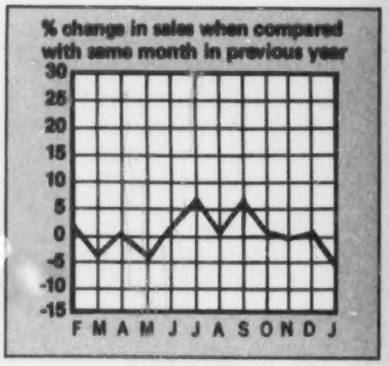
January's national sales statistics, when compared with January of 1986, show a drop of 6% (see graph). Only the East South Central, West North Central, and Pacific regions reported gains.

Month-to-month statistics were also down, with few gains reported. The largest gain was in Upstate New York, up 16%; the sharpest drop, West South Central, down 13%.

The cumulative figures are identical with January yearly comparisons, the only month of the year this occurs.

Receivables show identical comparisons with last year, although these figures have slipped from the past few months, having moved from the high 30s to the 40 and 41 day marks, for general liners and specialists, respectively.

—Milt Eilenbogen

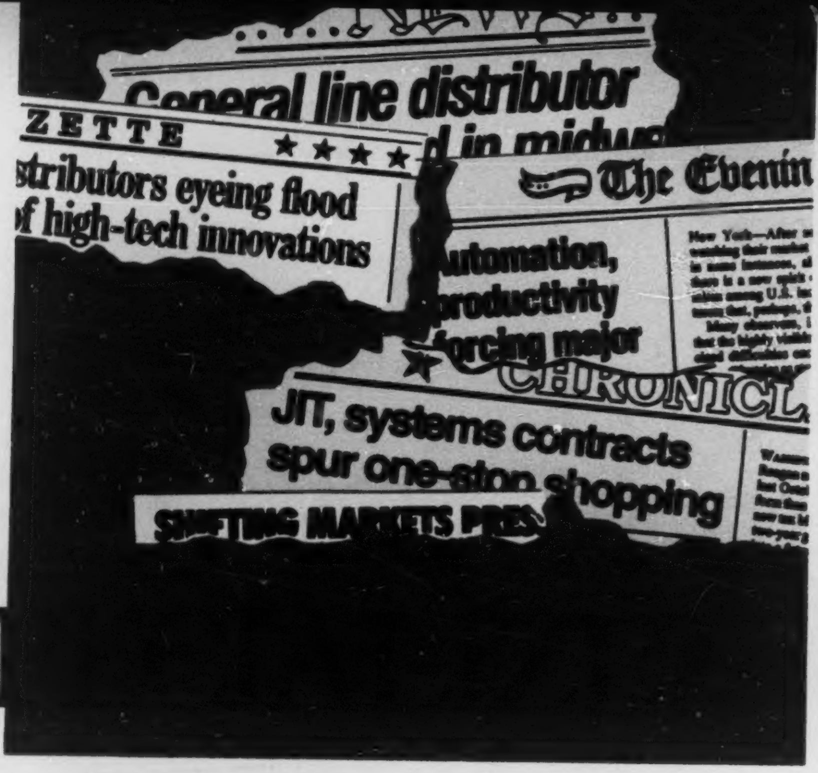


RECEIVABLES*

	Jan. '87 Gen.	Jan. '87 Spec	vs. Jan. '86 Gen.	Jan. '86 Spec.
New England	45	48	45	48
Middle Atlantic	44	44	45	43
South Atlantic	37	38	35	38
East No. Central	39	40	38	41
East So. Central	41	40	41	38
West No. Central	40	39	40	38
West So. Central	38	38	37	38
Mountain	33	41	37	42
Pacific	43	44	44	43
National	40	41	40	41

* Average days outstanding

SALES BY REGIONS (% change)	Jan '87 vs. Dec.'86 Gen.	Spec.	Both	Jan '87 vs. Jan '86 Gen.	Spec.	Both	1st month '87 vs. 1st month '86 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−11	+8	−1	−13	+3	−3	−13	+3	−3
Connecticut	—	—	—	—	—	—	—	—	—
Massachusetts	−13	—	—	−9	—	—	−9	—	—
MIDDLE ATLANTIC: NY, NJ, PA	0	−4	−3	−20	−10	−12	−20	−10	−12
New York Metropolitan Area	—	−10	—	—	−6	—	—	−6	—
Upstate New York	+8	+23	+16	−30	−4	−17	−30	−4	−17
Pennsylvania	−10	−4	−6	−10	−22	−18	−10	−22	−16
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	−12	−9	−11	−13	−3	−9	−13	−3	−9
Georgia-Florida	0	—	—	−4	—	—	−4	—	—
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	+9	+6	+8	−9	−5	−7	−9	−5	−7
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	−13	+19	+16	−22	+8	−5	−22	+8	−5
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	—	—	—	—	—	—	—	—
Ohio	+16	−9	+3	−16	−2	−10	−16	−2	−10
EAST SOUTH CENTRAL: AL, MS, KY, TN	−17	−15	−17	+19	+1	+12	+19	+1	+12
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−1	−15	−4	+6	−2	+4	+6	−2	+4
WEST SOUTH CENTRAL: AK, LA, OK, TX	−5	−17	−13	−5	−23	−17	−5	−23	−17
Texas	—	−14	—	—	−5	—	—	−5	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	−1[illegible]	+30	+1	+19	−24	−2	+19	−24	−2
PACIFIC: CA, OR, WA	0	−7	−4	+5	+4	+4	+5	+4	+4
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	—	−6	—	—	+6	—	—	+6	—
U.S. TOTALS	−4	−2	−3	−5	−6	−6	−5	−6	−6



MUST YOU S

General line distributors have seen slow industrial growth of the past few years impair their profitability. Trimming excess inventory and focusing on specialized products totally or in part, may be one of the few ways to regain status and lost market share.

The most glaring statistic revealed in ***ID's*** 40th Annual Survey of Distributor Operations (***ID***: July, 1986), is that specialists, in such areas as gross profit, net profit before and after taxes, and return on investment, fared significantly better than general line distributors.

A look into the reasons behind these statistics show that rather than a fluke or momentary aberration, a trend is taking place that is likely to continue and might even accelerate, not necessarily to the disadvantage of the general line distributor (see box) since he has a flexibility that can put him face to face with the local specialized distributor. In effect, he can combine a rounded stock with a specialized stock and benefit from being both a one-stop and a specialized customer resource. The specialist who reverses the process by adding a rounded stock to his limited special inventory is faced with a high investment in inventory and tough challenges in the marketplace.

Milt Ellenbogen
Managing editor
and **Doug Harper**
Senior editor

General line distributors enjoy and will continue to enjoy some distinct advantages over specialists, for example in systems selling where they can meet a wide variety of customer demands and provide price benefits and delivery conveniences customers cannot find anywhere else. The risk of a general line distributor going over to the specialist side of the business is precarious in terms of initial investment, promotion and the required development, of cultivating the right market The question, *Must you specialize?* might be asked in another way: *If you don't specialize, what must you do to improve the condition of your business?*

Selective selling

The problem with low inflation and slow growth, is that pressure on prices tend to keep increases low or non-existent. This, coupled with lower-priced,

[*continued on page 34*]

If you must specialize, think...

Must you specialize?

competitive products has hurt the profitability of many distributors and kept industry sales growth at 5% or less through 1986.

For the many general line houses that already carry specialty lines, it is not too difficult to refine their operations by periodically cutting lines that are slow movers and concentrating more on their profitmakers, especially their specialty products. Pure general line houses, however, must start from scratch, if they're inclined to specialize. But although carrying specialties is an advantage for the general liner, the change is no guarantee of added sales and profits, for even specialists are having a difficult time keeping their profits up.

The chances appear to be better for those able to stock and sell lines with higher profit margins than normal, and this can only be done if the distributor is located in an area where such products have a chance of succeeding. Among such products are those in an electrical/electronic high tech area. Distributors selling control products, products relating to automation, and MRO parts for robots, computers and other components in this category, should, at some time, be better able to capitalize on the higher profit margins offsetting some of the slower-moving products and products with the lower profit margins.

Some general line distributors who cannot find a market in their region which would justify carrying a full line of specialties, might consider offering specialty services, and selectively selling those rather than products.

The changing relationship

According to Herbert Davis, a distribution consultant (Herbert W. Davis and Co., Englewood Cliffs, NJ), the relationship between manufacturer and distributor is changing for a variety of reasons.

"For one," says Davis "the products are becoming more complex than they used to be and, increasingly, distributors have difficulty representing the product properly. The question becomes whether manufacturers are going to continue to deal with general liners or whether they will prefer to deal with fewer, more specialized distributors.

"Many manufacturers are becoming increasingly choosy about who they will deal with and are taking a much closer look at each individual distributor. I think the days of a manufacturer having thousands of distributors are over," Davis asserts.

Who needs the niche?

Steve M. Samek is a partner in charge of wholesale-distribution practice at Arthur Andersen & Co. He is also one of the author's of the new report, *Facing The Forces of Change: Beyond Future Trends in Wholesale Distribution*, prepared by Arthur Andersen for the National Assn. of Wholesaler-Distributors (NAW).

According to Samek, "There is a definite trend toward specialization in the smaller distributor base and to some degree that is fueled by the manufacturer who, although committed to the distribution pipeline, is looking at their channels and determining the profile of the distributor they want. More and more, vendors are looking for distributors who will spend significant time with their product line.

"As a result, the smaller distributor would like to be able to turn to a manufacturer and say 'I'm focusing most of my attention on your product line,' and that gives the manufacturer comfort that in the sales call that the distributor is making, he gets more *air time*. But there are some contradictory trends that you have to sort through to understand why specialists might be doing better," continues Samek.

As one example of a contradictory trend, he notes that the new NAW study scheduled to be published in July found that beginning about five years ago and projected to extend about 5-10 years into the future, distributors are in the process of broadening their product line and that trend is running counter to specialization. If anything, says Samek, the largest distributors are increasing their inventory so that they can get economy of scale. "When you do that," he reports, "you may lessen the shock of variations in demand for one product line because if one goes up and the other goes down, it's not going to hurt you as much."

Adds Samek: the theory: *The more I can carry, the higher my potential to sell to the customer when I'm making a sales call*, is being applied by larger distributors who are carrying larger lines and providing more value added services. For the panelists in our study we found that the bigger companies do not plan on specializing but the small ones are.

"What's happening is that the small or medium-sized distributor can't compete on that scale so that is where you're finding the specialist coming on real strong. And he is beginning to focus on some highly specialized niches and, in

[continued on page 38]

General liner vs specialist: each has its own advantages

Advantages: General line distribution
- One-stop shopping allows opportunities for tie-in sales.
- Product diversity cushions business during slump in an industry.
- New lines more easily built around emerging new opportunities.
- Less paperwork for customers via fewer orders and payments.

Advantages: Specialized distribution
- Emphasis on value added allows for higher profit margins.
- A smaller inventory allows more precise control, less cost.
- Extra "clout" with suppliers.
- Superior customer service, fewer backorders via depth of stock.
- Smaller, specialized inventory may generate more stock turns.
- Ability to precisely pinpoint and penetrate growing markets.

the process, becoming very creative."

In one of the more extreme examples of niche marketing, Samek cites a small number of distributors who specialize in selling only industrial tape and limit their inventory to tape produced by one manufacturer. "They buy big rolls of tape, cut it and slit it to the size that they want and they have chemical engineers on their staff who can go out and look at a specific application that you have in your plant and bring you adhesive technology better than anyone else. And even though these people are relatively small as distributors go, when you throw in the fact that they buy everything from one vendor they end up having great clout."

Squeezing the cost structure

"From one standpoint," Samek continues, "the specialist generally has higher margins because value added is more a part of his mix. He sells something unique rather than a commodity product but, in addition, the specialists do tend to be smaller companies that are run with less structure. The owner/operator is usually still a major part of the business so it tends to be more flexible and the companies have learned to squeeze the cost structure a little."

He contends that such *cost squeezing* combined with the fact that specialists tend to have more *pull* with vendors, allows them to buy at the same price levels as a large broad line distributor.

Samek notes that research in connection with the forthcoming DREF study indicated that 53% of distributors responding were currently dealing with between one-to-three sources for a given product and that the percentage is expected to rise to 69% by 1995. At the same time, Samek says that distributors purchase 60% of their products from 10% of their vendors and by 1995 expect the number to increase to 70%.

"The house of a million screws"

Service Supply Co. of Indianapolis, IN, however, dramatically contradicts the theory that only small distributors specialize. This fastener distributor, featured as a *Distributor Of The Century* by ***ID*** last December, has sales in the neighborhood of $55 million and an inventory of 77,000 separate items, easily justifying its widely touted motto of "The House Of A Million Screws".

According to executive vice president Frank Owings, Jr., the company never considered any other possibility. "The historical principle of the company was based on selling industrial fasteners and we've pretty much stayed with that for the last 39 years. And we've always prided ourselves on being a quality screw house."

Owings confirms that among the advantages of specialization, in addition to the ability to obtain quantity discounts from manufacturers, is a heightened level of customer service since "Virtually everything we sell is sitting on a shelf ready to be delivered on very short notice."

Another distributor, Griffith-Raguse, a Pennsylvania abrasives distributor, became a specialist in 1966. According to Harry Griffith, the firm's president, the prime advantage of specialization is the ability to control inventory more carefully. Griffith notes that he is able to operate with a smaller inventory base and produce more turns annually than he was as a general liner.

"There were numerous general line industrial distributors in the area a couple of decades ago that are no longer here," says Griffith, "but, on the other hand, I don't know too many specialists that have gone out of business."

"One thing goes with another"

A distributor in business for nearly 100 years, Sees & Faber-Berlin, Inc. of Philadelphia is firmly committed to general line distribution. "We may sell some items once every six months and others once a year but regardless of how slowly our inventory turns, our customers over the years have come to depend upon our having in stock whatever it is that they need. And if we don't sell them one thing, we can always sell them something else," says Ralph Berlin, president.

Berlin notes that there are three prime ways in which the distributor can generate volume business: 1. Through advertising ("expensive"), 2. Through outside sales reps ("expensive and sometimes not as productive as you would

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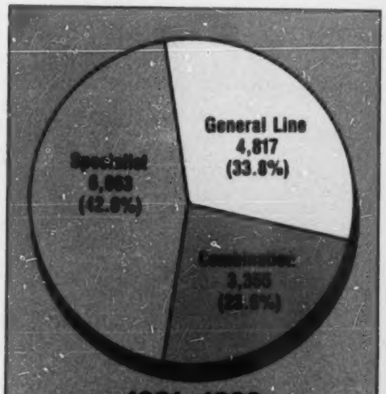
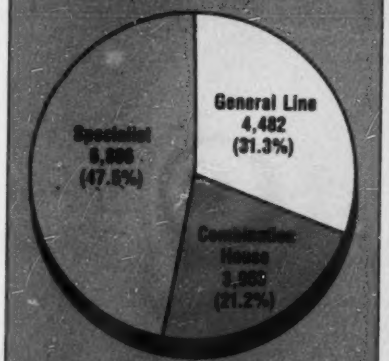


1981–1982

The changing face of distribution

When the 1981-1982 *ID* census of industrial distributors was conducted (see chart above) there were a total of 14,235 distributors. Of this number, 4817 were general line houses, 6063 were specialists and 3355 were combination houses, representing 33.8%, 42.6% and 23.6% of the total respectively.

When the 1985-1986 *ID* census (see chart below) was completed, the total number of general liners, specialists and combination houses had increased slightly by 106 to 14,341. Of this total, the number of general liners dropped to 4482, a 9.3% decrease while the number of specialists had increased to 6806, an 8.9% increase. During this same period, the number of combination houses declined to 3053, a decrease of 9%.



1985–1986

like them to be"), 3. By virtue of the service you offer.

"Service we feel is the key," says Berlin, because it enables us to offer practically anything that the customer needs within a *reasonable* time." And it is in the area of giving the customer *practically anything he needs* that Berlin feels that general liners have a distinct advantage.

He illustrates his point as follows: "If a man buys cutting tools, he is obliged to measure the part to find out of if he has done the proper work. So we immediately have the potential for cutting tools and measuring tools. If he is doing metal removal work, he also needs cutting fluids, work holding devices such as precision vices, collets, tool holders, work holders, clamps, and fixture components.

"Only today," Berlin continues, "we serviced a customer who just bought a CNC machining center so that he can start up a metal working job shop. We sold him a wheelbarrow, brooms and trash pails. But we also sold him a complement of tooling for the machining center. And since the workholding devices on the machining center are air operated, we sold him an air compressor. And because he has to pipe the plant to distribute the compressed air, we furnished an isometric of the piping layout, cut the pipe to size, furnished the fittings, the valves, the quick couplers, the hoses and the regulators. And soon he's going to need a couple of drill presses and a small lathe and I know he's going to come back for them. As I've said repeatedly, one thing goes with another."

'If anything, large distributors are broadening their lines.'
—Samek

Whatever a company's particular business, says Berlin, it will require "a great variety of items that we sell. *Variety* is the key to this business." He stresses that every company needs MRO, "And by-and-large you won't get MRO items from a specialty house. They just don't have them. You can't get a wrench, hammer, saw, electric drill, router, a ladder, or manilla rope and I could go on and on. The list is practically endless."

Berlin emphasizes that if one segment of industry is slow, there are generally other segments that may be reasonably busy. "If you are limited by virtue of being a specialty house," Berlin concludes, "you lose the opportunity to sell that man who happens to be busy. Whereas with the one who is slow, you're dead in the water.

I see the future of this business, not in limiting the scope of items that you offer but in expanding it."

To be or not to be (a specialist)?

"I'm not impressed that specialists' business figures read better than that of general line distributors," says Joel Levine, president, Power Industrial Supply, Rutherford, NJ, a general line distributor with a specialty in cutting tools and abrasives. "We carry over 32,000 items. How much does the average specialist carry? If a specialist carries 1000 items he can beat the socks off us in net profit and stock turns. Now we do carry a specialty in cutting tools and abrasives, but that's not a big deal. These are small items to stock and fit in very well with our general line products. As a matter of fact, any general line distributor of size should have a specialty in cutting tools and abrasives, that's how easy it is to carry."

Levine states that he is happy to be a general line distributor and wouldn't have it any other way.

"At some point in your business philosophy," says Levine, "you have to make a decision. Do you want to try to be the best in carrying a few product lines for specialized customers or do you want to try to serve a broad market with a multitude of products. We decided that our goal would be to fill a customer's needs with as many products as possible. Sure some products do very well and others sit on the shelf for a while but that's the way it is. Some general liners think they can do both, have a broad range of products and specialize. We don't think you can do both and do it well. You have to make up your mind."

'Any specialty implies a certain degree of expertise.'
—Nelson

According to Mark Nelson, Apostle-Nelson, West Hartford, CT, a cutting tool specialist, any general line house that claims to have a specialty in cutting tools and abrasives should know more than just how to sort the items on the shelf. "Technical expertise," says Nelson, "goes hand in hand with the cutting tool specialty, because this is what adds the value to the product. We believe that in most cases, if our customer has a problem, we can go in there and provide more support than the factory guy can."

Nelson's business is the extreme opposite of a purely general line house. "You could call us a specialist in a specialty business," says Nelson, whose background as a sales engineer was gained with a manufacturer of solid carbide cutting tools. "If a general line distributor were to say to me, 'I want to be a cutting tool specialist,' I'd say fine but first do a marketing survey of what type of materials are being cut, what are the strengths and weaknesses of the market, and can you train the right personnel and acquire the expertise necessary to specialize and service that market. "I'm not advising or presuming when I give advice that every cutting tool specialist must specialize to the extent I have," he adds, "but I think any specialty implies a certain degree of expertise that should be developed if you want to lay claim to being a specialist."

In an industry as large and as complex as industrial distribution, there is ample room for such passionate diversity of opinion. In the final analysis, however, it will be the distributors' customers who will cast the final vote on whether specialists or generalists or some hybrid combination of the two will come to dominate the business. ☐

Industrial Distribution

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C1850-4
5/13/87

May 1987

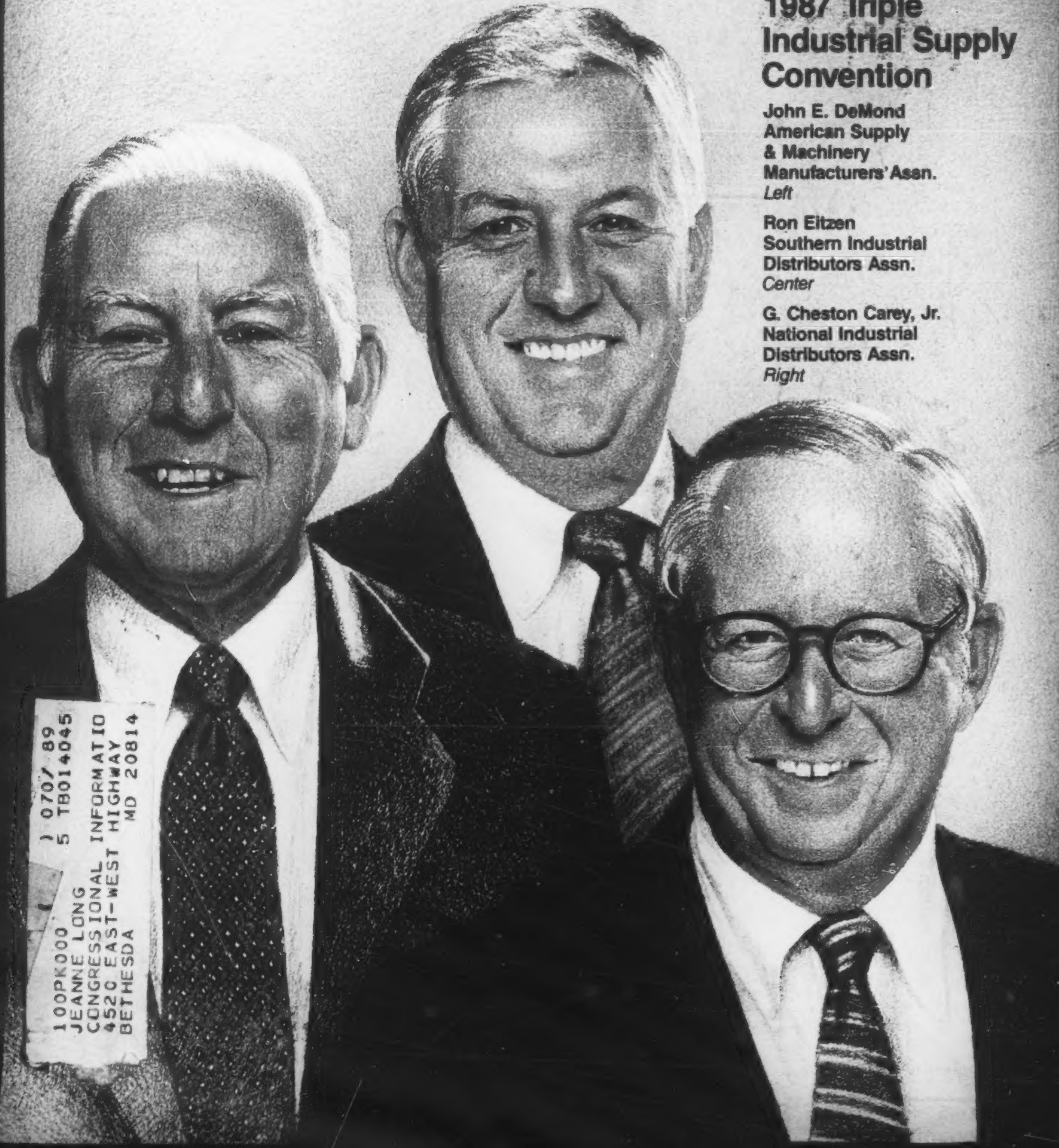
Hotline:
Suppliers warned of challenges to U.S. competitiveness

1987 Triple Industrial Supply Convention

John E. DeMond
American Supply & Machinery Manufacturers' Assn.
Left

Ron Eitzen
Southern Industrial Distributors Assn.
Center

G. Cheston Carey, Jr.
National Industrial Distributors Assn.
Right



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Industrial Distribution

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INDUSTRY NEWS

Demand for compressors and vacuum pumps on the rise

NEW YORK, NY—Distributors should position themselves to profit from the demand for compressors in the U.S. market created by the recent expansion in industrial production and construction activity, according to Louis Burns, projector director for Frost & Sullivan, Inc., a New York-based market research firm.

In a report published earlier this year by Frost & Sullivan, the total market for small compressors and vacuum pumps is expected to increase from $538 million in 1985 to $662 million by 1990. This represents an average annual growth rate of 4.2%. (See Chart.)

Exports of the total compressor market declined about 15% in 1986. Imports continued a gradual upward trend with an increase of about 6%. Burns said the performance of the total compressor market generally corresponds to that of small compressors and vacuum pumps.

Some of the specific markets distributors will be strong in, according to the report, are industrial/commercial, light construction, laboratory/medical/dental and the farming industry.

Small compressors are broadly defined as units having capacities of 75 cfm and lower and small vacuum pumps are pumps requiring 10 hp and under. Distributors sell mostly industry grade compressors that are usually 5 hp or greater. Consumer grade compressors sold to homeowners are below 1.5 hp.

End-users in the industrial and process industries account for about 32% of small compressors and 68% of small vacuum pump requirements. Small compressor requirements are projected to increase from $142 million in 1985 to $155 million in 1990, representing an annual growth rate of 1.8%. During the same period, small vacuum pumps should increase from $89 million to $100 million, representing an average growth rate of 2.5%.

Compressed air systems are used in industrial and process industries for powering portable tools, machine tools, control valves, instrumentation and other devices. Portable tools are normally used in assembly operations. Vacuum pumps are used in a wide variety of applications such as pneumatic conveying systems, vacuum coating and depositing, evacuation of tubes and degassing in metallurgical processes.

In the light construction area, the vast majority of compressors used are rated at less than 75 cfm. Pneumatic tools are being used by the building trades even though the degree of market penetration is spotty. Contractors tend to use air tools where electric power is not available such as in a new housing development in outlying areas. For the forecast period, this segment of the market is projected to have an average annual growth rate of 4%.

Laboratory, medical and dental end-users account for about 10% of the small compressor market and 26% of the small vacuum pump market. For small vacuum pumps, medical and dental demands represent nearly 18% and industrial laboratories 8% of the small vacuum pump market. Laboratory, medical and dental requirements are expected to grow at an average annual rate of 8.5% for small compressors and vacuum pumps with requirements being $59 million for compressors and $43 million for vacuum pumps during 1990.

The farm market makes extensive use of portable small piston compressors. They are used in conjuction with maintenance and various types of spraying. The farm requirements are expected to represent about 6% to 7% of the market for small compressors.

The report, entitled *Small Compressors and Vacuum Pumps in the U.S.*, can be purchased through Frost & Sullivan for $1700.☐

[illegible]

MARKET	1985	1986	1987	1988	1990
SMALL COMPRESSORS					
Industrial/Commercial	142	135	133	140	155
Homeowner/Hobbyist	75	81	87	94	106
Garages/Service Stations	45	46	48	51	56
Light Construction	50	58	59	60	61
Lab/Medical/Dental	39	42	46	50	59
Farm	28	28	29	30	32
Others	34	33	30	33	41
SUBTOTAL	413	423	432	458	510
SMALL VACUUM PUMPS					
Industrial	53	50	50	53	60
Process Industries	36	34	34	36	40
Medical/Dental	20	22	24	26	30
Laboratory	9	10	10	11	13
Others	7	7	8	8	9
SUBTOTAL	125	123	126	134	152
GRAND TOTAL	538	546	558	592	662

Source: Frost & Sullivan, Inc. New York, N.Y.

[*continued on page 12*]

INDUSTRY NEWS...

Indicators...

Business activity was generally sluggish between January and February, despite modest gains in the midwest and west. The *NIDA/SIDA Industrial Distribution Index* for the month of February was down 0.3 points to 138.7, from a previous level of 139.0 in January. In the four reporting geographic areas, the East was down 3.3 to 131.6 from 134.9; Midwest was up 1.5 to 120.7 from 119.2; West was up 10.8 to 159.0 from 148.2; and the South was down 9.8 to 167.3 from 177.1. Although the Midwest and West reported gains, these were still not up to the performance of February 1986. In February 1986, the Midwest index stood at 129.2 and the West was at 179.9...The *NIDA/SIDA Industrial Supply Inflation Index* (1977 equals 100) stood at 165.8 for February, up only 0.1% over the previous month and 2.2% over last year's standing of 163.6...*SIDA's Monthly Sales Trend Report* for January says that the 88 locations reporting experienced a 13% decrease in sales for the period of January 1987 as compared to the previous January. The entire association area experienced a 3.06% decline in its accounts receivable status in January 1987 as compared to the previous month and a 3.48% decline in January 1987 as compared with January 1986. The inventory investment trend went up 2.28% for Janaury 1987 as compared with the previous month and 3.37% for January 1987 when compared with January 1986...The *ASMMA Monthly Index of New Orders* was down for January, falling 2.0% to 119.2. In December of last year, the index stood at 121.2... The Copper and Brass Servicenter Association's Index for the month of January reported that distributors' shipments of free cutting brass rod registered a gain of more than 15% from the previous month. The CBSA Index, which equates 100.0 with the average 1978 month's shipments, registered 123.5 in January. The same month one year ago saw a record 142.3 on the Index for this product...*The National Assn. of Aluminum Distributors* says that shipments of aluminum are rebounding slowly in 1987, but January tonnage remains 2.9% below January '86. Inventory is off 9.1% from January '86.

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BUSINESS REPORT

Observing the "trade war"

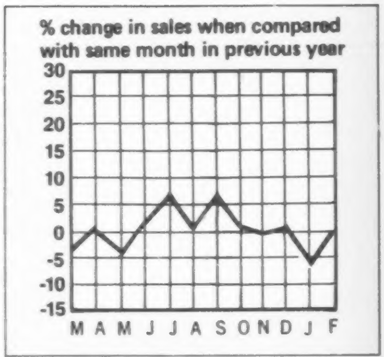
We dare not officially call it a trade war yet, but unofficially it's hard to call it anything else. Chips are jawboned off the U.S. market at prices considered in violation of previously made agreements; specialized high tech Japanese products will soon carry stiff tariffs; some Canadian lumber already carries tariffs; and both Houses of Congress are anxious to get their licks in with protective legislation shielding hard hit U.S. industries. Where does the distributor stand in all this upheaval?

The distributor is a passive observer experiencing ambivalent feelings. Stuck in a slow growth rut the past several years, watching the markets hit astounding new highs almost daily these days, he has to wonder where all the money went. To get a meaningful piece of the action, he realizes American manufacturing has to really boom, in fact, a sonic boom is what he wants to hear, so opening up more foreign markets sounds good. The question is, is it possible now that Congress is demanding reciprocity from its so-called trading partners that this can come about?

Possible, yes, but probable, no. Why? Because the key to selling more American-made products abroad is to have a booming market abroad, and the economies of our allies are not thriving, but are in a sluggish mode which is not conducive to heavy buying. Thus, we are back to the problem of creating, or recreating, our own natural market for the goods we produce. But how can we do this when our own needs are continually satisfied by less expensive foreign-made goods? Further, a trade war could exacerbate problems, and distributor business could decline more.

Economists point to two hopeful signs: first, foreign goods should soon lose some of their attractiveness as their relative cost increases, and second, a hard line in American policy should help sell more products abroad without much retaliation as our business allies have more to lose than we do.

In regional reporting, sales nationally were 0 or even, with monthly comparisons up 8%. **—Milt Ellenbogen**


% change in sales when compared with same month in previous year

RECEIVABLES*

	Feb. '87 Gen.	Feb. '87 Spec	vs. Feb. '86 Gen.	Feb. '86 Spec.
New England	41	46	45	48
Middle Atlantic	45	45	44	43
South Atlantic	35	32	35	37
East No. Central	31	38	40	41
East So. Central	44	31	42	33
West No. Central	45	42	43	42
West So. Central	32	42	33	42
Mountain	33	39	32	40
Pacific	41	43	43	43
National	39	40	40	41

* Average days outstanding

SALES BY REGIONS (% change)	Feb.'87 vs. Jan.'87 Gen.	Spec.	Both	Feb.'87 vs. Feb.'86 Gen.	Spec.	Both	1st two months'87 vs. 1st two months'86 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	+23	+8	+13	+17	+3	+8	+4	+1	+2
Connecticut	+19	+11	+18	+18	+3	+14	+4	−7	−2
Massachusetts	+34	—	—	+15	—	—	+3	—	—
MIDDLE ATLANTIC: NY, NJ, PA	−3	+20	+12	−12	+3	−2	−12	−4	−7
New York Metropolitan Area	—	+18	—	—	+3	—	—	−4	—
Upstate New York	+2	0	+1	−10	+3	−4	−18	−2	−10
Pennsylvania	+2	+39	+24	−15	+4	−3	−13	−6	−8
SOUTH ATLANTIC:DE, DC, MD, FL, GA, NC, SC, VA, WV	+11	+1	+6	−12	+1	−7	−14	−1	−8
Georgia-Florida	—	+2	—	—	0	—	—	−1	—
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	+2	+7	+5	0	−3	−2	−2	−6	−4
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	+7	0	+2	+12	+10	+11	+6	+9	+8
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	0	—	—	−18	—	—	−20	—
Ohio	−5	—	—	−13	—	—	−16	—	—
EAST SOUTH CENTRAL:AL,MS, KY, TN	+4	−4	+1	+10	0	+5	+12	−5	+4
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−9	+22	+2	+3	+18	+9	+3	0	+2
WEST SOUTH CENTRAL: AK, LA,OK, TX	+34	−3	+21	+14	−5	+8	−11	−5	−9
Texas	—	−3	—	—	+7	—	—	+7	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	+17	+33	+23	−21	−11	−17	+23	−15	+3
PACIFIC: CA, OR, WA	+11	+3	+7	+3	+6	+5	+3	+4	+3
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	−11	+2	−3	−11	+11	+2	−12	+6	−4
U.S. TOTALS	+8	+8	+8	−1	+1	0	−3	−3	−3

Getting a piece of the $2.5 billion automation market

Industrial distributors currently handle up to $850 million in programmable controllers and peripherals alone. And while there's another $1.5 billion of automation business waiting to be divided up, this expert suggests that you home in on your specific market and customize your sales staff's skills before you start anticipating and tallying profits.

Any distributor who carries a line of general purpose controls can claim to be in the automation business. So to stay away from buzzwords and to clarify where there are real growth opportunities, he must assume that to be fully into the business, a distributor should have a working knowledge of:

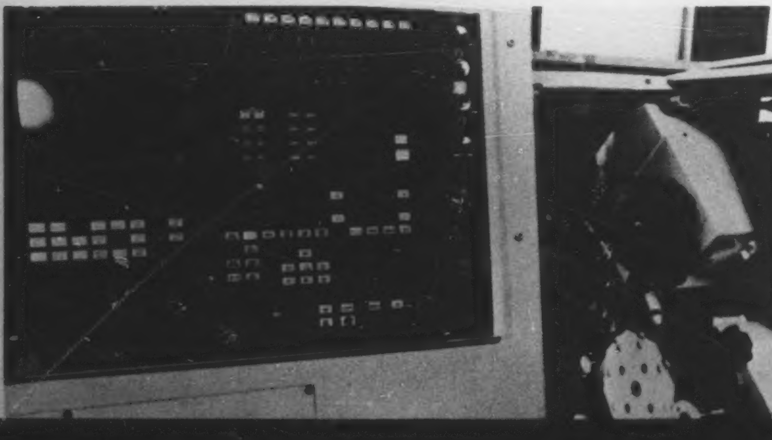
- Digital electronics
- Data communications
- Data manipulation

Further, assume that this knowledge is a prerequisite for applying, selecting, selling, installing, programming, operating and maintaining automation products.

The truth about market size

Speculation runs rampant on the size of the automation market. "Guestimates" fluctuate wildly, but for a reasonable starting point, here are six categories of automation equipment with potential into the 1990's:

- **Programmable controllers.** This is a $500 to $600 million market this year, and is expected to be about the same next year. 70% of the orders come through distribution. About 1/3 of the market is automotive and automotive OEM, though key growth opportunities are anticipated in food processing, paper and paper OEM, rubber and plastics, chemicals and pharmaceuticals, and among manufacturers of batch and process control machinery.
- **PLC peripherals.** The peripherals sector is at least as large as the PLC (let's use this acronym to distinguish between programmable controllers and personal computers) market, and is growing fast. To get an idea of the scope of this sector, look to table 2 for a listing of nearly 100 product types that fall into various categories.
- **Proximity sensors.** Photoelectric, capacitive and inductive sensing devices are seen to be a $200 million market, and one that is growing fast.
- **BCD thumbwheel switches and displays.** One manufacturer has estimated that a highly organized and effective programmable controller distributor should be able to sell 1 to 3% of his PLC volume in these devices.
- **Step motors and controls.** A leader in this sector estimates that industrial distributors have a $50 to $70 million market in these products. Currently, two non-chain distributors each do well over $1 million annually in just one line of steppers.
- **Adjustable speed drives.** Many larger units now have PLC front ends. When eddy current couplings are included, this area becomes a $700 million market. Presently, the best estimates show that distributors handle 40% of the units and 22% of the dollars in this group. For the projectable future, adjustable frequency drives appear as a fast growing market.
- **A-C industrial motors.** While this, all by itself, is a $2.5 billion market, the key players tend to be motor specialists who have either a service or a breadth/depth strategy. This is no market for the beginner or the faint hearted.



Making sense of market data

Some of the numbers make for pretty heady reading. But one simple fact re-

[*continued on page 96*]

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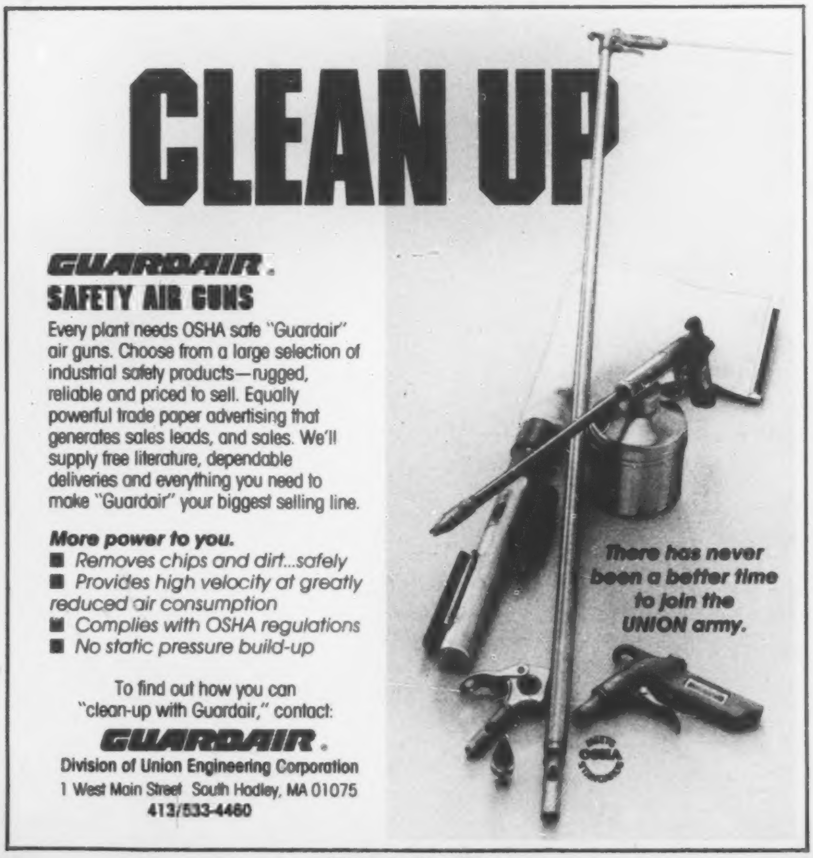

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Write in No. 69

mains: purchase orders come from customers, not from markets. Therefore, it is necessary for each distributor to determine the most likely automation market within his particular trading area.

Quite frankly, there is an excess of market data, and none of it will tell you what your customers need, and what they expect from you and your suppliers. None of it will tell you what specific opportunities are already well served by your competition, and where you still have open niches.

Nevertheless, you need to be aware from the start of multiple market data sources. Suppliers can and should give you estimates of their market size and share. When industry associations such as the National Electrical Manufacturers Assn. report data, the total market size can be reasonably defined.

Independent market researchers such as Frost & Sullivan or Dataquest routinely report in detail on specific markets. Their reports are good, and their prices reflect their quality.

Federal, state and local governments report economic data in massive detail. Local Chambers of Commerce are good sources of specific data on local industries. Here a knowledge of SIC codes is important to pinpoint prospects of importance to you. One concern about government data is that it may be two to five years old.

Who to talk to, what to ask

Marketing people are the source of information about current and prospective customers. All salesmen should be able to describe who their customer's customers are, and how they impact your business. Marketing people can define who the key industry specifiers are. If your product is visible to your customer's customers–and programmable controllers, for example, are very visible–then you need to probe to determine what, if any, sales obstacles are created by end customer brand preference.

Engineering personnel can add their own inputs on the status of new and existing products. They know which standards are critical to your success, and they can identify where their companies

[*continued on page 98*]

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Write in No. 71

Automation market . . .

COMPUTER-AIDED MANUFACTURING *(U.S. Consumption—millions of dollars)*	1980	1985	1990*
Factory computers and software	935	2861	6500
Material handling systems	2000	4500	9000
Machine tools and controls	3000	4800	7000
Programmable controllers	50	550	3000
Robots and sensors	68	664	2800
Automated test equipment	800	2000	4000
TOTAL	$6853	$15,375	$32,300

*Estimated

Source: DATAQUEST

are heading, technically. This information can affect your choice of a new line or service.

Manufacturing and purchasing personnel are gaining in stature as vital contributors to the specification process. They will know if new manufacturing concepts such as Just-in-Time are going to be implemented. They can identify what new services they are demanding. They will be among the first to know when a particular manufacturing operation is being considered for movement out of your trading area.

When surveying customers, you need to get answers to the following questions:

- What does this customer need and expect from his suppliers and their distributors?
- Who is meeting those needs now? With what degree of success or failure?
- Who are the preferred suppliers? Who are their distributors? Where are they located?
- What changes is the customer making; how will these affect your plans?

In addition to surveying existing customers, get all of the market data you can from both current and potential suppliers. They owe you this data. However, be realistic and understand that the data most readily available to you will not answer all the questions you need to ask as you develop your own action plan.

But feel free to ask suppliers about their choices of target industries. Then determine how the choices coincide with your own pool of likely and available customers for any given supplier's product. Then too, as a prospective or existing distributor, you are entitled to information about distributor programs and policies. You need to know what their direct sales forces are expected to do, and whether you will compete with them for business.

Selecting a sales staff

There are two different and equally effective ways of selling complex equipment. One is to hire product specialists in support of a general sales staff. The other is to hire dedicated, specialty sales engineers, an approach that results in all sales personnel becoming product specialists. Programmable controllers are typical of products requiring specialized sales skills.

As a result, most franchises need a dedicated, full time specialist to support and build the business. One of the most common reasons for failure of a franchise is the reluctance of the distributor to bite the bullet and hire his specialist in advance of his first order. Two short cuts–a distributor principal promising to become his own specialist, or tapping the line sales manager for the task–rarely work, except where the sales manager heads up the new high-tech sales unit.

There are fast talkers out there who pass themselves off as specialists, and then when found out, they move on. They are the "butterflies" of this business, and distributors are their frequent victims. Therefore, always check a prospective specialist's references very carefully. Additionally, don't be afraid to invite your supplier salesman or application engineer to join you and the prospect for lunch.

Tactics such as these will make it easier to detect the difference between the technical competent who simply needs to learn the nitty gritty of your proposed product line and the articulate, techni-

[*continued on page 100*]

Blue Devil®

MEMO

TO: ALLEN DISTRIBUTORS

FACT: Allen Manufacturing Co. and Holo-Krome have been sold to the Danaher Corp., an investment group from Washington, D.C.

FACT: Allen operations are now controlled by Holo-Krome.

FACT: The Allen organization is in the process of being dissolved, and the Allen warehouse will be closed as soon as inventory is depleted.

QUESTIONS: With the changes occurring as a result of these FACTS, do you, as an Allen Distributor, know where you fit in future market strategies?

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Write in No. 73

cal idiot who has only a superficial knowledge of the subject.

Essentially, there are three ways to find product specialists. You can grow them from inside your own organization. You can have them come to you. You can steal them from someone else.

The imperatives

o **Money.** In one case, a distributor lured a specialist with a salary plus override package which resulted in total compensation that produced a firestorm among the rest of the sales staff. The distributor didn't believe his own sales plan, and he reached his goal more quickly than expected.

Given that there are no compensation secrets in any organization, general salesmen will rarely work well with a product specialist when their own compensation is reduced as a result of orders taken with the help of the specialist.

o **Mission.** Before hiring any product specialist, develop a vision of the kind or organization you intend to build. Do you want a general sales force plus a few specialists, or are you willing to go with a collection of specialists only? Keep in mind that in this arena, a single specialist plateaus at around $750,000 to $1 million.

Also, hiring specialists can present problems if doing so means that two or more of your sales people need to call on a single customer. If your generalists have to answer customer questions with a "I'll have the product specialist get back to you," response, then you have a problem.

You can avoid this by giving your generalists enough detailed information to answer the following questions:

o Is this application an opportunity to use the specialized product? Why? Why not?

o Why should the customer use the specialized product instead of some other product?

o Why should the customer use our brand rather than that of at least two competitors?

One excellent distributor solution to these challenges is to rotate the product specialist assignment within the general sales force as new products are introduced by the suppliers.

[*continued on page 102*]

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Write In No. 76

Tapping the supplier

Any supplier of a "visible" product must have an out-front marketing program to support his distributor program. A visible product is one where the customer can be expected to exert brand preference in his choice of a new or replacement product. Many of the automation distributor's products fall into this category. They are visible to the end user who often believe they have major commitments to the software program that runs a given piece of automation. Consequently, they are often reluctant to accept another manufacturer's unit without an exhaustive evaluation program.

The dynamics of selling to an OEM are such that when the OEM's customer has strong preference for one or two brands, the distributor of competing brands has a major marketing problem.

Traditional selling to an OEM involves working with all functional areas of the customer, and persuading the customer that there are valid reasons why your product has overwhelming benefits to that customer.

Selling to the end user involves essentially the same plan. There are reasons–specific and quantifiable–why the end user must perceive it to his advantage to use your product.

It becomes dicey for a distributor when the user has a central engineering or purchasing operation outside the distributor's trading area, or when the OEM's customer has a strong preference for a brand other than the one the distributor is selling. Few OEM's will risk the loss of an order because they prefer brand X, while the end user prefers brand Y.

As a distributor, you need the support of your supplier's marketing organization to turn this situation around. The challenge this presents to the supplier is exciting. No matter how large a company the supplier has in back of him, his marketing resources remain finite. There are only so many end markets he can work, and so many end users he can call upon.

If, and only if, the supplier's target markets are the same as your own will you, as a distributor, be in potentially competitive shape.

[continued on page 104]

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Write in No. 79

Anticipating the future

There is little point in looking more than two years into the future, except to avoid surprises. But there are definite signs that the following factors will impact automation distributors.

o **The importance of distribution** will continue to increase as a source of both products and technical services to both users and OEM's. Some of this expansion will be caused by the continuing increase in the performance to price ration of digital electronic hardware. Some will be due to the inability of large suppliers to provide local user services in a cost effective manner.

o **As prices drop,** and the technology becomes more diffused, and as the consequences for errors and omissions become more expensive, solution selling will become more difficult. Simultaneously, system integration requirements will become more complex. The concomitant increased software load will place heavy burdens on regional systems houses, and some will be unable to respond. There will be more evidence of this pull in opposite directions between the inexpensive and the powerful and the terribly complex.

o **Automation distributors will add electronic lines**; electronic distributors will add electrical lines; and specialty distributors will develop around niche opportunities. A distribution collision is on the near horizon.

o **Customers will experience hard times.** There is nothing "American" about the use of technology to improve quality and reduce costs. Any country can and will use automation as a tool to make its presence more attractive to American customers, and more damaging to American manufacturers—your customers. Expect your customers to increase their demands for more services. Expect suppliers to have greater difficulty in providing the margins needed to support these services.☐

EDITOR'S NOTE: Ronald F. Cota is president of Cota & Associates, Sarasota, FL. This article is adapted from his remarks to the Southern Region National Assn. of Electrical Distributors Conference in January and includes material supplied by Cota for this report.

MARKETING/OPERATIONS IDEAS

References identify more than 400,000 key phone numbers

A potentially valuable *National Business Telephone Directory* heads the list of newly available reference works from Gale Research Co. Intended to keep out-of-town directory assistance charges to a minimum, the volume reportedly alphabetizes names, addresses (with zip codes), and phone numbers (with area codes) for more than 350,000 businesses and industrial firms nationwide having more than 20 employees. List price for the 1903 page directory is $95.00. **Write in No. 603.**

To help distributors contend with the oceans of information relating to computers, Gale has compiled the first edition of its *Computers and Computing Information Resources Directory*. An additional 4000 names and phone numbers for eight categories of resources are included.

Of potential interest to distributors is the cross-indexed information identifying on-line services and teleprocessing networks, as well as sections devoted to programming languages, personal computers, telecommunications, management information systems, and office automation. Further, a geographic index is designed to heighten the usefulness of this 1271 page volume, priced at $160.00. **Write in No. 605.**

Gale's second edition of the *Trade Show and Professional Exhibits Directory* reportedly indexes more than 3500 events worldwide according to subject matter, geographic location, and other variables. Names, addresses, and phone numbers are provided for the show itself, its sponsors, and its managers. The volume spans 915 pages and costs $150.00. **Write in No. 607.**

An *Encyclopedia of Associations, 1987–Rankings Indexes*, is designed as a companion volume to the encyclopedia itself, and lists up to 20,000 nonprofit associations according to membership numbers, staff size, annual budget, and founding year. Each entry

[*continued on page 194*]

BATTERY MARKET POWERS UP

Sources at Rayovac Corp., in an exclusive with ***ID***, project that the industrial battery and flashlight market will experience a 6% to 7% growth rate through 1990. In dollar values, as the accompanying chart shows, this means a sales increase from an actual $290 million in 1986, through the expected $312 million in 1987, to an anticipated $400 million in 1990.

"With margins of 30 to 40% on products that turn an average of six to seven times a year, industrial batteries and flashlights offer a tremendous opportunity for distributors," says Greg Brady, vice president of industrial sales. Given this growth potential, the margins, and the turn rate, Brady continues, "distributorships can generate nearly 1% of their gross sales through batteries and flashlights."

To tap into this potentially powerful source of profits, Brady recommends aggressive merchandising and promoting. For example, "To spur sales from existing accounts, set up a regular reorder and stocking program," Brady explains. "Distributors who have done this report that they regularly receive repeat orders."

Because research shows that impulse buying represents more than 65% of all industrial battery and lighting device sales, "Use counter or free-standing displays," Brady offers. "With displays, distributors have found that they can increase their battery and flashlight profits by 60%, since over-the-counter sales are usually full price."

Providing a wide selection is also key to gaining battery and flashlight sales. Brady explains that, "Industrial grade batteries come in three different power systems–alkaline, heavy duty, and general purpose." Alkaline units are the most expensive and provide the greatest return and, as the chart shows, have the largest share of the market.

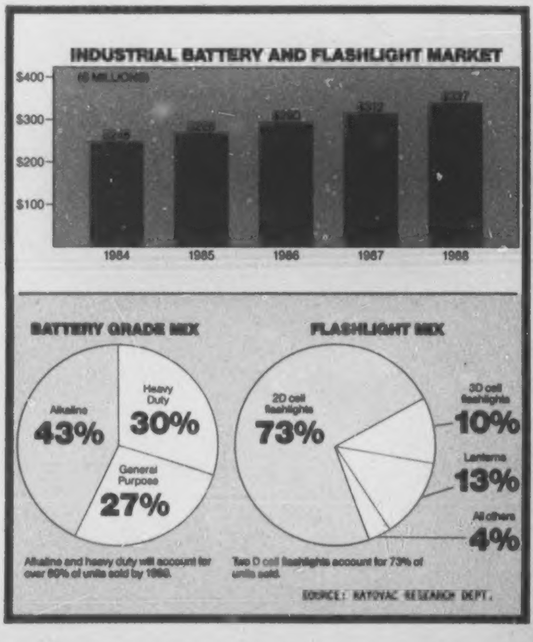
By stocking variety, however, distributors will be sure to have a supply of units in all the price ranges customers need, thereby encouraging both impulse buying and repeat sales.

In any event, Brady counsels, "Stock multi-packs. This recent packaging concept involves six or eight batteries packaged in a shrink-wrap container. They are ideal for display. They require less handling for pricing, stocking, and dispensing. Also, multi-packs upgrade sales from ones and twos to sixes and eights."

Stocking concepts that are good for batteries are also good for flashlights, Brady concludes. This is apparently most apt with regard to the two D-cell units, which command a dominating 73% of the market.

In short, Brady says, "With distributors combining displays, product selection, and regular reorder and stocking programs, industrial batteries and flashlights will generate regular and reliable profits." *Rayovac Corp. 101 East Washington Avenue, Dept ID, Madison WI 53703.*

Write in No. 601



Alkaline and heavy duty will account for over 80% of units sold by 1988.

Two D cell flashlights account for 73% of units sold.

SOURCE: RAYOVAC RESEARCH DEPT.

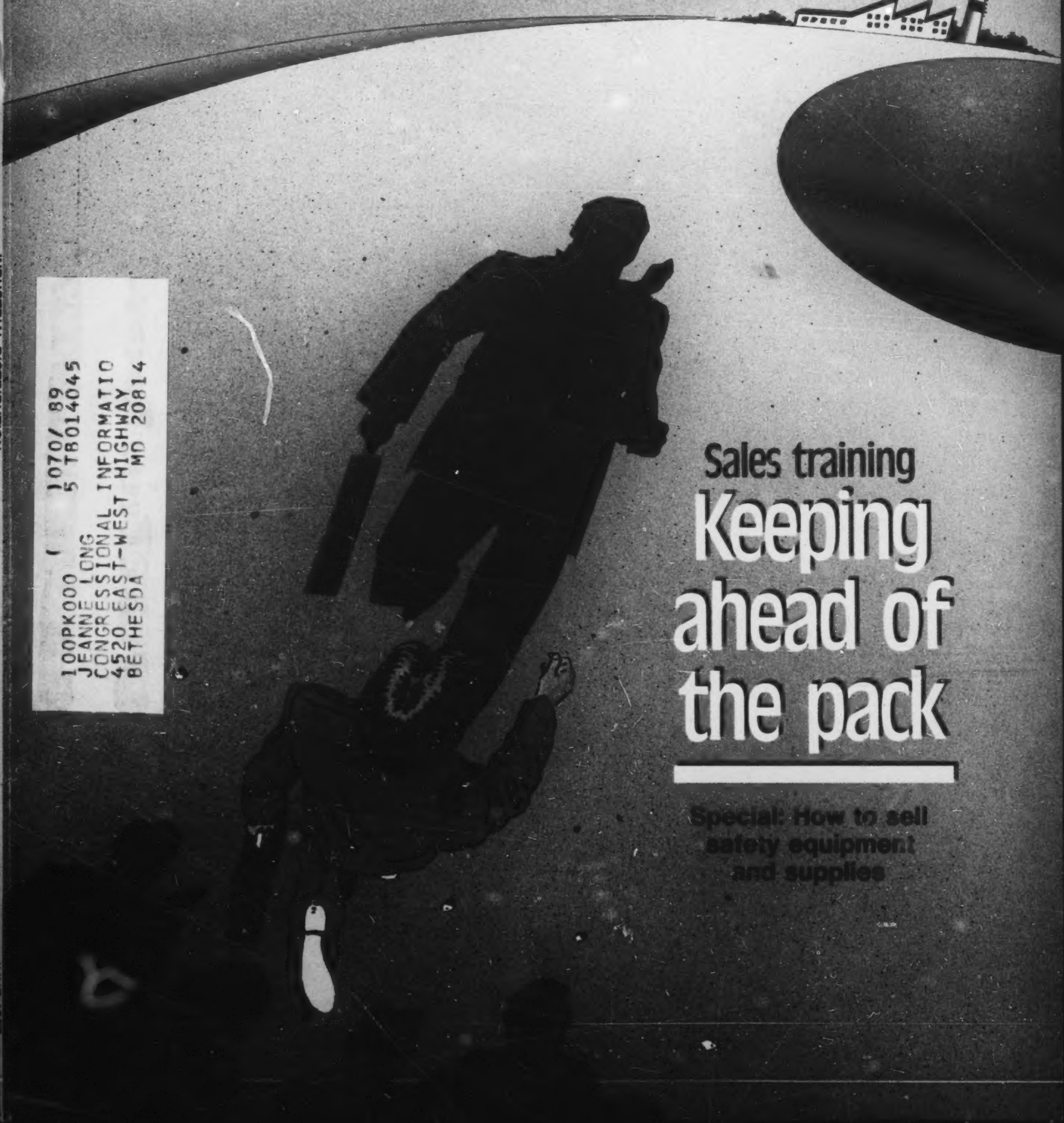
C1850-4
6/18/87

June 1987

Industrial Distribution

A CAHNERS PUBLICATION

Hotline: Prime interest rate starts to rise



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76 No. 6

INDUSTRIAL DISTRIBUTION

ID Industrial® Distribution

VOL. 76, NO. 6/76th yr. A CAHNERS PUBLICATION JUNE 1987

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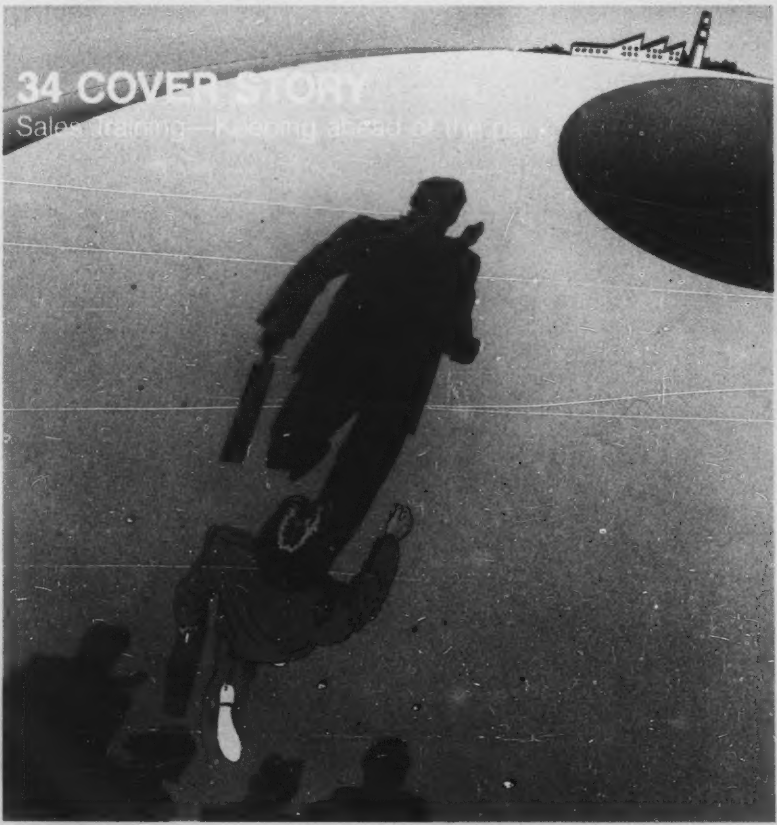

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INDUSTRY NEWS

Tariff has little impact on distributors

WASHINGTON, D.C.—Despite the initial shock, most industry observers said that the 100% tariff imposed April 17 by the Reagan Administration on Japanese industrial-grade portable power tools has had little impact on distributors.

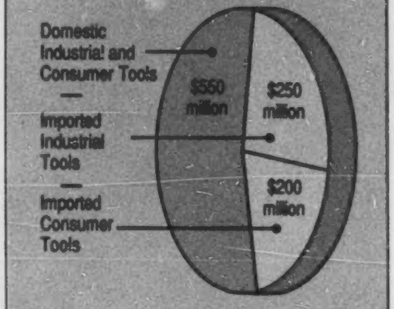
Industry experts, including distributors, association executives and manufacturers, noted that the impact has been marginal for two reasons. First, Japanese manufacturers hold three- to six-month inventories of portable power tools in the U.S. Secondly, the tariff does not cover the more popular Japanese products, including battery tools, hammer drills, angle grinders, and drywall screwdrivers.

The items specified by the tariff included electric drills with chuck capacities of ½ in. or more, rotary and percussion hammers, and specialized polishers and grinders.

At press time, most of those interviewed expected the tariff to last about 90 days. They indicated that the import tax was used primarily to put pressure on the Japanese government the week before President Reagan was scheduled to meet with the Japanese Prime Minister Yasuhiro Nakasone.

The tariff on $30 million of imported Japanese tools was set by the Reagan Administration as part of a package to recover $300 million in annual sales that the Administration believes has been denied U.S. firms because of unfair Japanese trading practices. Along with portable power tools, the tariff sought to recoup $180 million on advanced portable desktop and laptop computers and $90 million on color television sets.

Gary Holmes, a spokesman for the U.S. Trade Representative's Office, said the three industries were selected because of their limited impact on U.S. consumers. He cautioned those in the portable power tools industry to understand that power tools were included solely as a way to single out Hitachi for its alleged dumping of computer chips in the U.S. market, not because of a strong Administration commitment to protect the industry. Hitachi sells portable power tools through Hitachi Power Tools U.S.A., Ltd., based in Norcross, GA.



U.S. portable power tool market

Total 1986 sales estimated at $1 billion

Source: Power Tool Institute, Chicago, IL

Matthew Takagi, a spokesman for Hitachi's power tools group, said his company considered the Administration action strictly a retaliatory measure. He said the only item impacting his company was the duty on rotary and percussion hammers, sales of which comprise about 10% of the company's business. Hitachi does not sell a large volume of electric drills and its specialized polishers and grinders are manufactured in Singapore. The company captures about 2% of the U.S. portable power tool market and has four-month inventories in the U.S.

Patrick Griffin, a spokesman for Mikita U.S.A., Inc., said the tariff may lead Mikita to move more products into its manufacturing facility in Buford, GA., earlier than planned. Mikita's original goal was, by 1990, to produce 50% or more of the products it sells in the U.S. at its Buford plant. The power tool manufacturer is one of the leading Japanese importers, capturing about 13% of the U.S. power tool market in 1986.

Manfred Meyer, president of Manfred Meyer and Assoc., a distributor of construction fasteners and related power tools, said although he recognized it would probably not last too long, a prolonged tariff would allow him to increase both his market share and profit margin.

Meyer said his company used to sell Japanese portable power tools, but once Japanese manufacturers flooded the U.S. market, he was no longer able to sell Japanese goods at a profit. Meyer, therefore, kept his American lines and switched to European products. He said that if the tariff lasts more than six months, distributors selling Japanese products would probably be forced to sell American goods.☐

Bill helps distributors fight manufacturer terminations

WASHINGTON, D.C.—Legislation primarily aimed at consumers is pending in both houses of Congress, but may eventually have a substantial impact on industrial distributors. The bill centers around resale price-maintenance—or price-fixing—cases and would make it easier for distributors to fight terminations by manufacturers.

The proposed legislation requires that manufacturers prove a distributor was terminated for legitimate business reasons such as volume and location, not because a distributor sold goods below a manufacturer's suggested selling price. Under existing law, distributors must show they were terminated

INDUSTRY NEWS...

Halligan notes that many distributors are reviewing the mix of products that they handle. This seminar, she says, is intended "to familiarize distributors with the latest technology, to help eliminate apprehensions about that technology, and to provide attendees with the vital information they need to make product-mix decisions."

For distributors and their staffs who might need a review of PT basics, seminar leader W.E. "Bill" Pitcher will provide overviews of the "History of Motion Control" and the "Energy Transmission System." Pitcher's expertise evolves out of his 20 years experience in the fluid power industry.

Additional information on the PTDA-sponsored seminar, including specifics concerning registration, is available by calling Linda McChrystal at (312) 825-2000.☐

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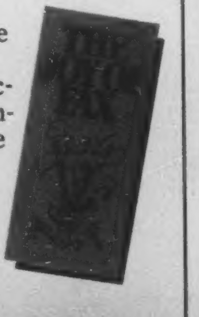


OMNIFAX

Indicators . . .

Business was generally strong between February and March. For example, the *NIDA/SIDA Industrial Distribution Index* for the month of March was up 3.7 points from the previous month to 142.4 points. The four reporting geographic areas all sustained increases. The numbers are as follows: the East was up 3.5 to 135.1; the Midwest was up 1.7 to 122.4; the West was up 5.2 to 164.2; and, the South was up 6.9 to 174.2. Overall, the March 1987 total of 142.4 was up 2.2 points from March 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 165.9 for March, up only 0.1% over the previous month and up 2.1 points from March 1986 . . . *SIDA's Monthly Sales Trend Report* for February showed a healthy rebound from the previous month. The 80 locations reporting experienced a 10.6% increase in sales in February 1987 as compared with January 1987 and a 3.0% increase in sales in February 1987 as compared with February 1986. In addition, 50 of the association's locations reported increased sales from February 1987 compared with January 1987 and 35 locations reported increased sales from February 1987 compared to February 1986. The breakdown of the sales performance of the four areas was as follows: Area I (NC, VA, WV) up 21.6 in February 1987 from January 1987 and up 10.7 in February 1987 compared to February 1986; Area II (FL, GA, SC, PR) up 7.0 in February 1987 from January 1987 and down 7.2 in February 1987 compared to February 1986; Area III (AL, KY, MS, TN) up 9.7 in February 1987 from January 1987 and up 9.7 in February 1987 compared to February 1986; and, Area IV (AR, LA, OK, TX) down 7.0 in February 1987 from January 1987 and down 7.2 in February 1987 compared to February 1986.☐

Write in No. 8

BUSINESS REPORT

Oil patch states still troubled

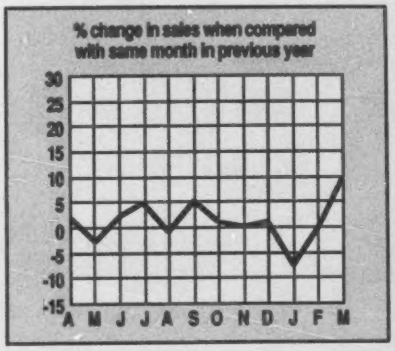
Sales for industrial distributors during the first quarter of 1987 have remained unspectacular. During the first three months of this year, nationwide sales rose by only 1% over the same time last year, although in a monthly comparison of March 1987 and 1986 figures, general line and specialty distributors posted a healthy gain of 10%.

Further signs of possible life can be found in March and February 1987 comparisons, where sales shot-up 15%. According to one industry observer, this unusual activity can be explained, in part, by the natural phenomenon of spring. As light industry prepares to resume work outdoors (such as housing construction), sales of hand tools, power tools and plumbing supplies begin to increase. Specialty distributors in Pennsylvania and Ohio, for example, experienced monthly sales increases of 29% and 25% respectively, and the New York metropolitan area posted a 17% gain.

In that part of the country less affected by the vagaries of nature, the West South Central states, the same old story of a depressed oil business continues to be told. "I wish that I could contradict your figures," says Howard B. Upton, Jr. of the Petroleum Equipment Institute, "but I can't." The figures that dismay him show that in March 1987 to 1986 comparisons, sales declined by 19%, nearly twice the national average.

Upton points to Tulsa, OK, as an example of a city in trouble. During the crude-oil boom of 1983, that city experienced only 2½% unemployment. Today, it has reached 10%. "I'm not sure how long any of this can persist," he says, "but it's going to take the price of oil going back up so that we can continue domestic production." Until that time, there seems little hope in sight for the oil belt to revive itself.

—J. Bonnanzio



RECEIVABLES*

	March '87 vs. March '86			
	Gen.	Spec.	Gen.	Spec.
New England. . . .	41	50	47	51
Middle Atlantic . .	48	43	45	43
South Atlantic . . .	34	34	36	37
East No. Central	35	36	39	42
East So. Central	43	35	41	33
West No. Central	40	—	44	—
West So. Central	28	39	38	40
Mountain	34	40	40	40
Pacific	37	40	35	44
National	38	40	39	41

*Average days outstanding

	March '87 vs. February '87			March '87 vs. March '86			First 3 mos. '87 vs. First 3 mos. '86		
SALES BY REGIONS (% change)	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
New England: CT, RI, MA, NH, VT, ME	−8	+6	0	+12	+17	+15	+14	+1	+6
Connecticut	—	—	—	—	—	—	—	—	—
Massachusetts	0	—	—	+5	—	—	+4	—	—
Middle Atlantic: NY, NJ, PA	+17	+17	+17	0	+1	+1	−12	−3	−5
New York Metropolitan Area	—	+17	—	—	−1	—	—	−2	—
Upstate New York	—	+6	—	—	+8	—	—	+3	—
Pennsylvania	+20	+29	+23	−1	+4	+1	−10	−13	−11
So. Atlantic: DE, DC, MD, VA, WV, GA, NC, SC, FL	+16	+25	+20	+10	+24	+16	−3	+8	+2
Georgia-Florida	+12	+24	+19	+13	+24	+19	−1	+8	+4
East No. Central: OH, IL, IN, MI, WI	+7	+13	+10	+2	+9	+6	−4	+2	−1
Indiana	+4	−4	+2	+22	+6	+19	+9	+10	+9
Wisconsin	+21	+5	+7	+6	+13	+12	−3	+10	+8
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	—	—	—	—	—	—	—	—
Ohio	+8	+25	+19	−18	+9	−2	−17	+1	−6
East So. Central: AL, MS, KY, TN	+16	+12	+14	+29	+5	+17	+21	−2	+9
West No. Central: MN, ND, SD, IA, NE, KS, MO	+35	—	—	+25	—	—	+8	—	—
West So. Central: AK, LA, OK, TX	−6	−10	−9	−21	−18	−19	−11	−24	−21
Texas	—	−7	—	—	−15	—	—	−15	—
Mountain: NM, AZ, CO, UT, NV, WY, MT, ID	+3	−8	−1	+11	−23	−4	+13	−21	−3
Pacific: CA, OR, WA	+23	+29	+26	+9	+27	+19	+3	+13	+9
LA-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	+26	+31	+28	+6	+29	+17	+1	+13	+7
U.S. TOTALS	+15	+16	+15	+9	+10	+10	+1	+1	+1

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Rate your company's performance

41st Annual Survey of Distributor Operations

ID Industrial® Distribution

Vol. 76, No. 7/76th yr. A CAHNERS PUBLICATION JULY 1987

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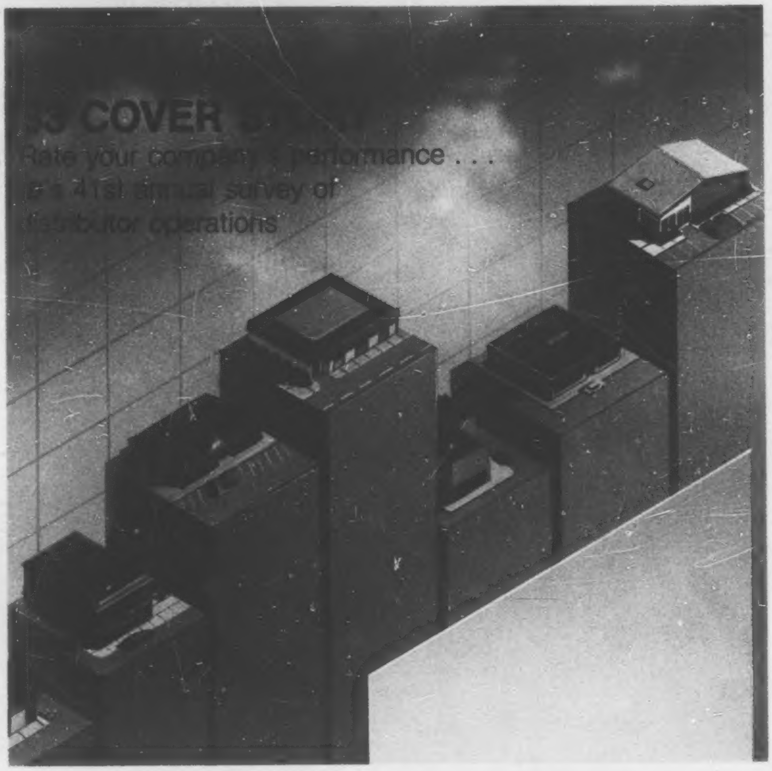

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INDUSTRY NEWS...

Indicators . . .

The *NIDA/SIDA Industrial Distribution Index,* which follows the sales of industrial maintenance, repair and operating equipment, surged 7.5 points in April to 151.1, the highest national index figure since Oct. 1986. The four reporting geographic areas all sustained increases. The numbers are as follows: the East was up 5.5 to 142.5; the Midwest was up 3.4 to 125.8; the West was up 6.1 to 176.7; and the South was up 18.6 to 192.8. Overall, the April 1987 total of 151.1 was up 2.8 points from April 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.2 for April, up 0.3 points, or 0.2%, over the previous month, and up 1.8 points, or 1.1%, from April 1986 . . . *SIDA's Monthly Sales Trend Report* for March showed a strong increase from the previous month. The 70 locations reporting experienced an 8.6% increase in sales in March 1987 compared to February 1987 and a 12.7% increase in sales in March 1987 compared to March 1986. In addition, 51 of the association's locations reported increased sales in March 1987 compared with February 1987, and 44 locations reported increased sales in March 1987 compared with March 1986 . . . The *ASMMA Two-Month Moving Average Index of New Orders, Seasonally Adjusted* was up to 126.9 in March, up 2.6 points from February 1987 . . . The *Federal Reserve Board's Durable Manufacturers Index, Seasonally Adjusted,* which tracks the performance of the industrial production of durable goods, was down 0.2 points in March to 129.7. . . . The *12 Leading Indicators Index,* published monthly by the U.S. Dept. of Commerce's Bureau of Economic Analysis, was up 0.7 points in March to 187.5.☐

Niagara acquires Athol— expands distributors opportunities

NO. TONAWANDA, NY—Niagara Cutter, a manufacturer of milling cutters, end mills and special cutting tools, has acquired Athol Cutter & Carbide, Inc. of Athol. MA, a maker of metal cutting tools. The specific details of the Athol acquistion were not made available.

Roger D. Bollier, president of Niagara, said the acquisition presents distributors with the opportunity to fulfill all of their cutting tool needs from a single source of supply. "With Athol's strength in manufacturing special cutting tools and our sales and marketing capabilities, I think we'll make a great team," Bollier said.

Included in the purchase by Niag-

[continued on page 13]

DURABILITY

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Write in No. 8

BUSINESS REPORT

Mixed signals for second half of '87

While some economic indicators for industrial distributors were pointing up during April, to the exasperation of economists, others were pointing down. If, on the surface, such contradiction paints a perfectly foggy picture, a closer inspection of the numbers seems to mirror the nation's general economic health.

From March to April, the Federal Reserve Board noted a 0.6% decline in its Industrial Production Index. According to Cahners Economics, this drop was due largely to a 7% fall in domestic automobile production. When Detroit realized that it had over-produced to the tune of 400,000 units through the first quarter of 1987, it quickly moved to correct excess inventories.

Reflecting this shifting of gears was a 6% decline in sales registered by general line distributors in Ohio, and a 17% sales decline for specialty distributors in that same state.

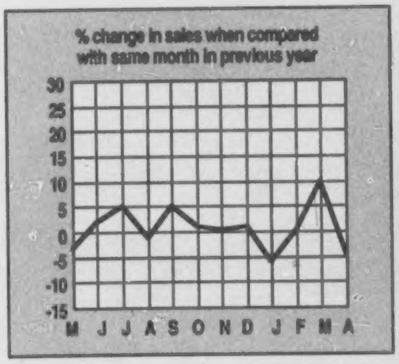
Other laggards in manufacturing were machine tools, cutting tools and forming tools, which posted a decline of 11.1%.

However, if most of the economy's bad news could be found in the manufacturing sector, most of the good news (with the notable exception of rising interest rates), was found in the consumer sector. Although levels of consumer debt have risen, the rate of increase has begun to slow.

Additionally, the April unemployment rate fell by 6.3% to its lowest level since March of 1980, and sales of major appliances shipped in April rose by 10.4%. Despite this good news, consumer spending is expected to be softer in the industrial sector.

For the remainder of 1987, Cahners Economics sees both interest rates and the Dow Jones Industrial Average holding steady, a lower growth rate for the GNP and an end to the dollar's decline.

—J. Bonnanzio


% change in sales when compared with same month in previous year

RECEIVABLES*

	April '87 vs. April '86			
	Gen.	Spec.	Gen.	Spec.
New England.	—	51	—	49
Middle Atlantic	42	44	42	42
South Atlantic	32	35	32	36
East No. Central. . . .	34	37	38	37
East So. Central. . . .	—	33	—	30
West No. Central . . .	38	42	39	37
West So. Central . . .	—	35	—	36
Mountain.	35	—	36	—
Pacific.	38	41	40	43
National	36	40	38	39

*Average days outstanding

	April '87 vs. March '87			April '87 vs. April '86			First 4 mos. '87 vs. First 4 mos. '86		
SALES BY REGIONS (% change)	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
New England: CT, RI, MA, NH, VT, ME	—	+1	—	—	−2	—	—	+2	—
Connecticut	—	−8	—	—	−35	—	—	−11	—
Massachusetts	—	+6	—	—	+17	—	—	+7	—
Middle Atlantic: NY, NJ, PA	+11	−5	0	−8	−9	−8	−13	−5	−7
New York Metropolitan Area	—	−8	—	—	−6	—	—	−4	—
Upstate New York	+25	−2	+13	−8	−1	−5	−10	0	−5
Pennsylvania	+9	+2	+2	−6	−15	−12	−8	−8	−8
So. Atlantic: DE, DC, MD, VA, WV, GA, NC, SC, FL	−9	−12	−11	−10	+7	+2	0	+8	+5
Georgia-Florida	0	−13	−11	+2	+11	+9	+10	+8	+9
East No. Central: OH, IL, IN, MI, WI	0	−12	−6	+2	−1	0	0	−2	−1
Indiana	—	−4	—	—	−3	—	—	+6	—
Wisconsin	−12	−3	−7	0	+5	+3	+7	−2	+2
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	−12	—	—	−16	—	—	−11	—
Ohio	−6	−17	−13	−19	+14	−3	−17	+5	−6
East So. Central: AL, MS, KY, TN	−7	+3	−1	−11	+3	−4	+10	−1	+4
West No. Central: MN, ND, SD, IA, NE, KS, MO	−1	+6	+1	+10	+12	+11	+10	+9	+10
West So. Central: AK, LA, OK, TX	—	+6	—	—	−12	—	—	0	—
Texas	—	+6	—	—	−12	—	—	0	—
Mountain: NM, AZ, CO, UT, NV, WY, MT, ID	−8	—	—	−6	—	—	−3	—	—
Pacific: CA, OR, WA	−15	−17	−16	−9	0	−4	−1	+10	+5
LA-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	−18	−17	−18	−15	−3	−8	−7	+9	+2
U.S. TOTALS	+1	−8	−4	+1	0	+1	+1	+1	+1

HOTLINE

Consolidations promise new market strategies

The continuing rash of mergers and acquisitions is generating new and unique opportunities for distributors.

The distribution industry is on the verge of major changes with consolidation playing a major role, according to a newly released study by a Chicago stock brokerage firm.

In the report, titled *The Wholesale Distribution Industry,* William F. Jelin, a senior securities analyst with the Chicago Corp., predicts consolidation will lead to fewer and stronger competitors and a higher percentage of publicly owned distributorships.

"It's been too easy for too long for many industrial distributors," Jelin says. "What made their ideas work five to ten years ago may not lead to success today. There are going to be major changes ahead."

Jelin says the challenge for distributors is identifying opportunities in which management and capital resources can maximize the "clout" within their chosen distribution channels. One way for distributors to achieve that clout is through geographic expansion by acquisition, the report says.

A company that recently followed that route is the Valin Corp. in Sunnyvale, CA, which recently acquired the Metropolitan Supply Co. of Carson, CA. The acquisition led to the creation of one of the largest fluid power distributors on the West Coast.

By combining the companies, Valin's sales should be in excess of $20 million this year and Valin, which traditionally sold products in northern California and western Nevada, now has a presence in southern California and Arizona.

Alan B. Vidinsky, president of Valin Corp., points out that an acquisition can allow a company to expand even when the economy isn't growing substantially.

Wholesale-distribution acquisitions

Year	Acquisitions	Dollar value
1983	107	$365 million
1984	143	$1.7 billion
1985	194	$1.9 billion
1986	160	$1.7 billion

Source: W.T. Grimm & Co., Chicago, IL

"You grow to a certain point where you achieve a high market share and meet internal goals. Then you have to make a decision . . . to go into another line or do the same type of business and expand geographically," he says. Since Valin and Metropolitan were in similar businesses, "there was no learning curve involved and at the same time we increased our geographic penetration," Vidinsky adds.

Gary Buffington, executive vice president, Southern Industrial Distributors Assn., says he has seen many of his members consolidating their distributorships in the past few years. "It makes good economic sense in many instances to consolidate," he says. "And you're going to see more consolidation in the future."

The Chicago Corp. notes that acquisitions and mergers for mid-size and larger firms also permit expansion of product lines and increased market share. Internal growth also can come through joint ventures with wholesalers in non-competitive lines, in which warehouse, delivery and other resources would be shared.

Also, the Chicago Corp. says more value-added services may be provided, mainly in areas previously covered by suppliers or customers, thus increasing the importance of a specific distribution channel. Growing in importance will be online computerized ordering, systems selling, "just-in-time" inventory programs, and customized applications and packages.

Here are some growth strategies the Chicago Corp. sees emerging for distributors:

- adding foreign product lines,
- adopting more of a retailer's role through catalog sales or by operating wholesalers' clubs,
- increasing certain manufacturer-type activities such as repackaging, first-stage processing and fabrication,
- selling byproducts or wholesale-distribution to new markets such as computer software and marketing information,
- diversifying into new or complementary lines in an attempt to leverage current facilities or systems use.

There are many benefits to distributors increasing in size, the Chicago Corp. report says. Those advantages include achieving volume discounts in purchasing, the ability to offer lower prices to customers, better financing, greater ability to develop value-added services, the ability to leverage the use of larger warehouses that can accommodate a variety of product lines, and better management expertise in relation to total sales.

But there will always be a place for the smaller firm with an entrepreneurial focus that implements an effective marketing strategy. "The small size of the markets or product lines in which these smaller firms are most efficient often makes it uneconomical for larger companies to compete with them," Jelin says.

The bottom line, the security analyst concludes, is that industrial distributors are facing tremendous changes in the next several years, more so than at any time in recent history. How distributors react to changes in the marketplace will determine their futures.

—Jack Keough

Profits up despite lagging sales

41ST ANNUAL SURVEY OF DISTRIBUTOR OPERATIONS

Distributors controlled spending and adopted strategic cost-cutting measures to record profits last year despite sluggish sales. This follows a year, 1985, in which very slight gains were reported.

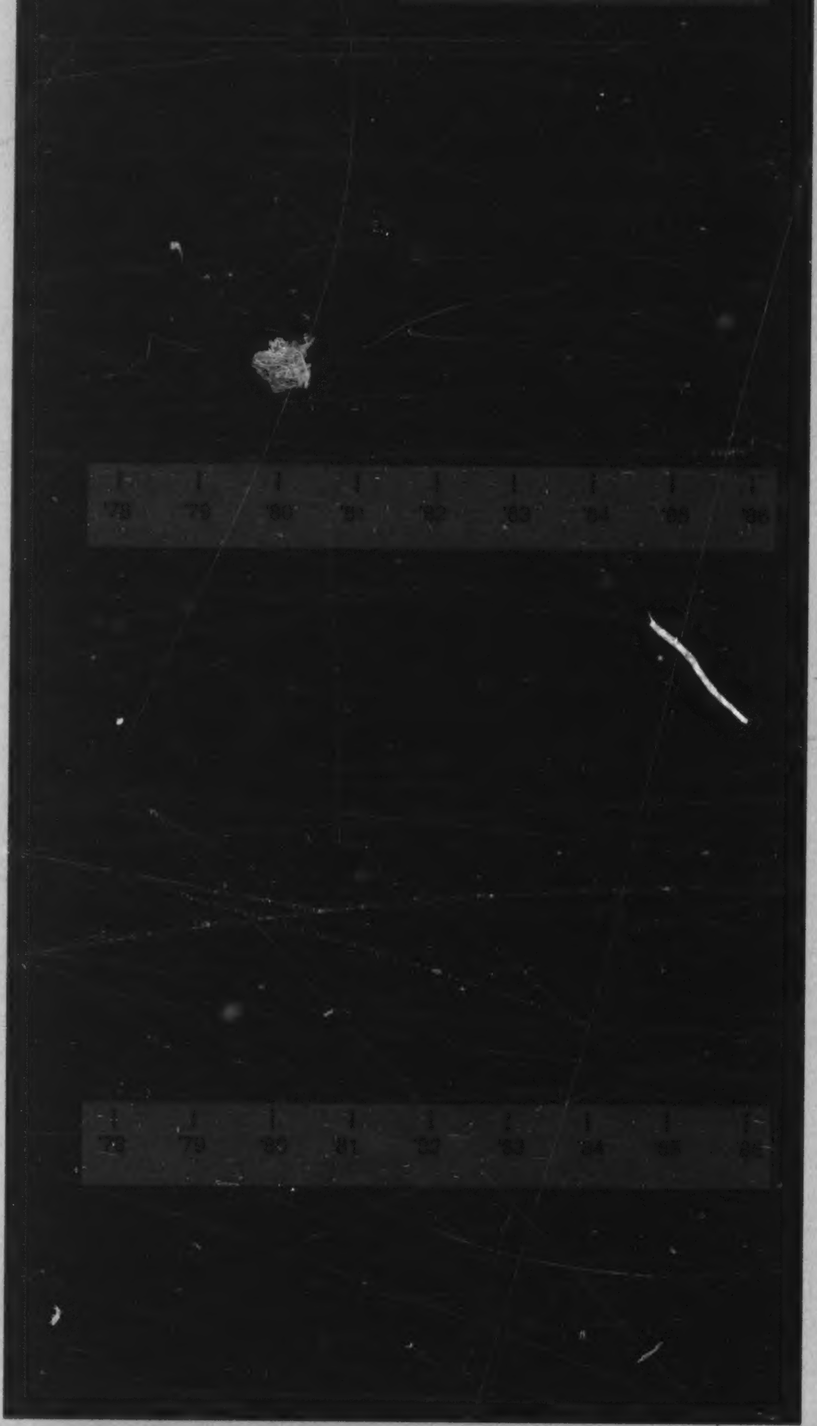
The Federal Reserve Board's *Index of Industrial Production* (see graph) gained a slim 1.4%, from 124.5 in 1985 to 126.2 in 1986. Distributor sales volume igures, not keeping pace, showed a light decline of 0.5%, or from $50.1 illion in 1985 to $49.8 billion in 1986. After allowing for an approximate 3¼% inflation rate, the industry experienced a sales decline of nearly 4%.

Specialists fared better than general line distributors, as was the ase in last year's survey, but this ime only slightly better as business igures overall were mixed.

For complete business data, see raphs and analyses in the following ages under **Profit and loss, Operating costs, Inventory and receivables, Business trends, Personnel, Warehouse space,** and **Computers and EDP**. To compare your firm's overll performance figures with both ational and regional statistics, see he **Condensed table for comparison nd analysis** at the end of this report. Statistics and analyses of combination houses follow the condensed table.

oping with another lean year

Hard pressed to cut operating osts, distributors sharply cut pending for new EDP equipment nd other improvements. Smaller rms held the line on adding stocking locations, while larger concerns oved more aggressively. Both gen-



eral liners and specialists managed to keep total operating expenses at approximately last year's levels.

General liners saw both sales per employee and gross profit per employee fall in 1986 compared to '85, while specialists enjoyed small gains. Return on investment (ROI) fell for all distributors.

The leveling off of insurance costs was one plus for distributors last year, after having experienced sharp gains in 1985. Nevertheless, distributors indicate they are considering insurance, payroll and fringe cuts this year to further reduce costs. Total compensation figures (payroll plus fringes) dropped significantly in 1986 compared to 1985.

Sober '87 forecasts

The optimism expressed in last year's survey, especially for sales, is missing in this year's predictions. With the exception of the South Central region of the country, the highest prediction for sales increases does not exceed 10.7% (South Atlantic), with the lowest at 10.3% (Northeast)—a remarkably narrow range. The South Central region predicts the highest sales, 14.5%, and higher price inflation, 5.4%, than the rest of the country.

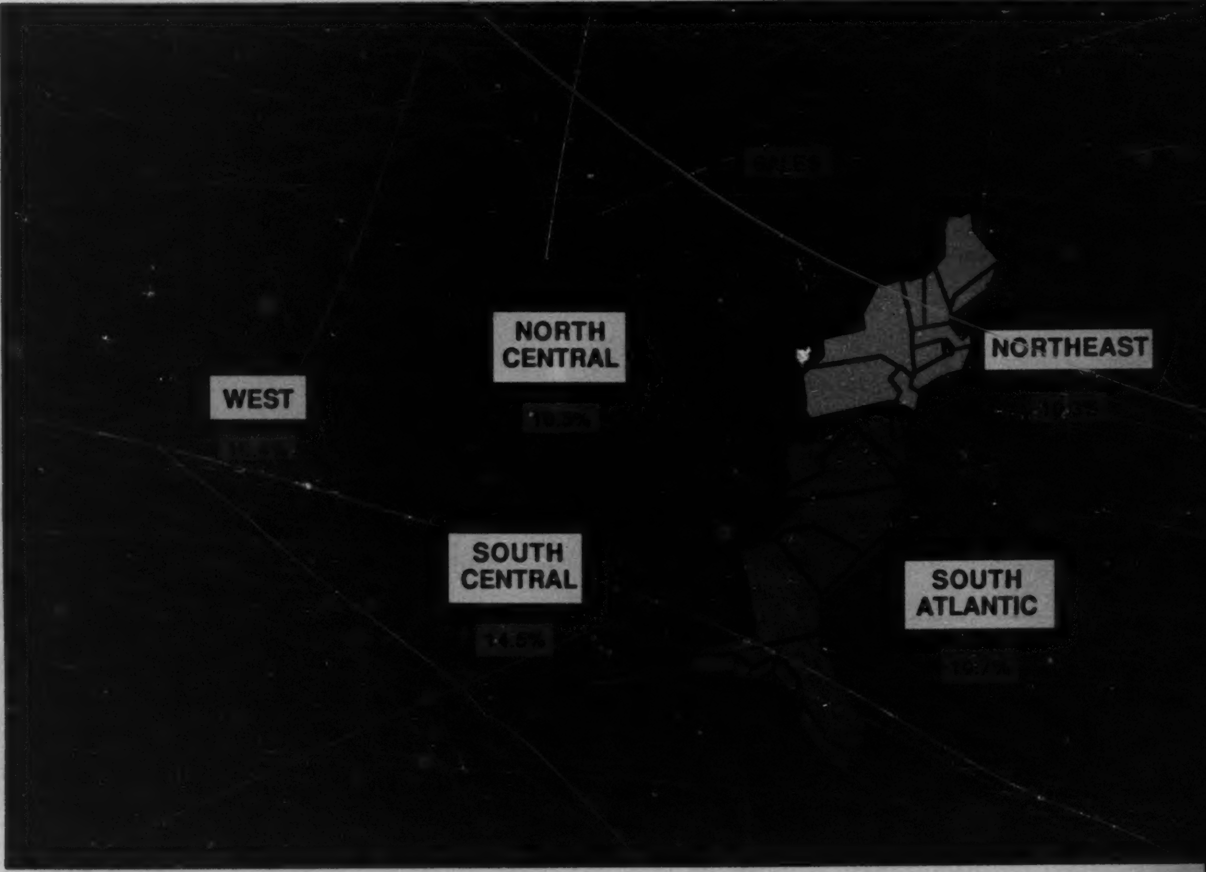
Low inflation overall is the consensus of distributors contributing to this survey. However, with the recent rise in interest rates, higher monthly consumer price index figures and rising commodity prices, greater-than-anticipated price increases for products could take hold in the second half of this year.

Not all distributors predicted sales increases for 1987. Nearly 6% of the total respondents predicted a sales decline in 1987, with the rate of decrease at 6.2% for general liners and 6.5% for specialists.

Other 1987 predictions on the hiring of employees for both inside and outside sales, covered later in this report, support a cautious, although not necessarily negative, approach to business this year.☐

Medians and averages

All percentages used in this survey are medians, unless otherwise specified. The median number is larger than or equal to half of a group of numbers and equal to or smaller than the other half. In the series 4, 4, 5, 7, and 10, the median is 5. The average of this series is 6 (30 divided by 5). The median number is more representative of a group being surveyed, since it will not be distorted by either extremely large or extremely small numbers.



Profit and loss

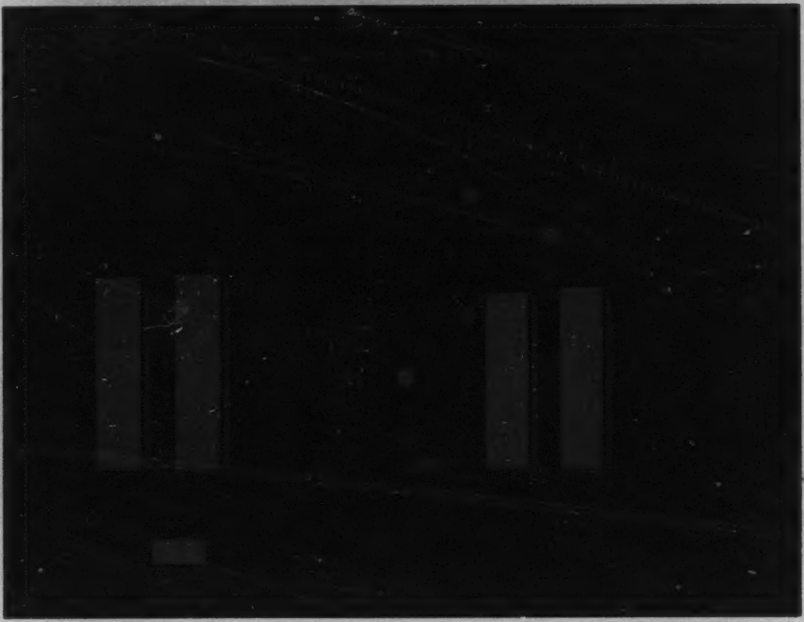
Gross profit dropped slightly for general liners (2.1%) and rose slightly for specialists (3%), with other business statistics mixed. Only net profit-after-tax figures showed both general liners and specialists ahead, 1986 over '85. Shelf-stock sales declined with gross profit as a percent of shelf-stock sales, indicating a small loss for general liners and an almost similar gain in magnitude for specialists.

Net profit before tax declined 6.7% for general line houses but rose 3.1% for specialists. As net profit after tax increased for both general liners and specialists, 8.7% and 3.8% respectively, 1986 was by no means a losing year for distribution, despite mediocre sales figures.

Return on investment, however, was down 6.7% for general liners, falling a sharp 14.9% for specialists. Shelf-stock sales were flat for general line houses, falling 3.1% for specialists. Gross profits as a percent of shelf-stock sales declined a slim 1.9% for general liners, but were up slightly for specialists, at 2.5%.

National and regional figures in the condensed do-it-yourself table at the end of this report follow, for the most part, this mixed pattern of general business statistics. Although 1985 comparisons and percent changes are not given, room is provided for your statistics to be plugged in and comparisons made.☐

The complete ***41st Annual Survey of Distributor Operations*** *is available in report form. It contains over 200 pages of original statistics broken down to provide detailed analyses of individual operations across the board, as well as comparisons of any distributor's performance against regional or national norms. A single copy is $150.00 prepaid. Write:* ***Industrial Distribution,*** *Cahners Publishing Co., 275 Washington St., Newton, MA 02158-1630, Attn: Susan Lawler, or call (617) 964-3030.*



Operating costs

Total operating expenses rose only 1.6% for general liners and were even or zero for specialists in 1986 vs. 1985. These statistics indicate a very conservative approach to spending by distributors. Other statistics under operating costs, outlined below, bear this out.

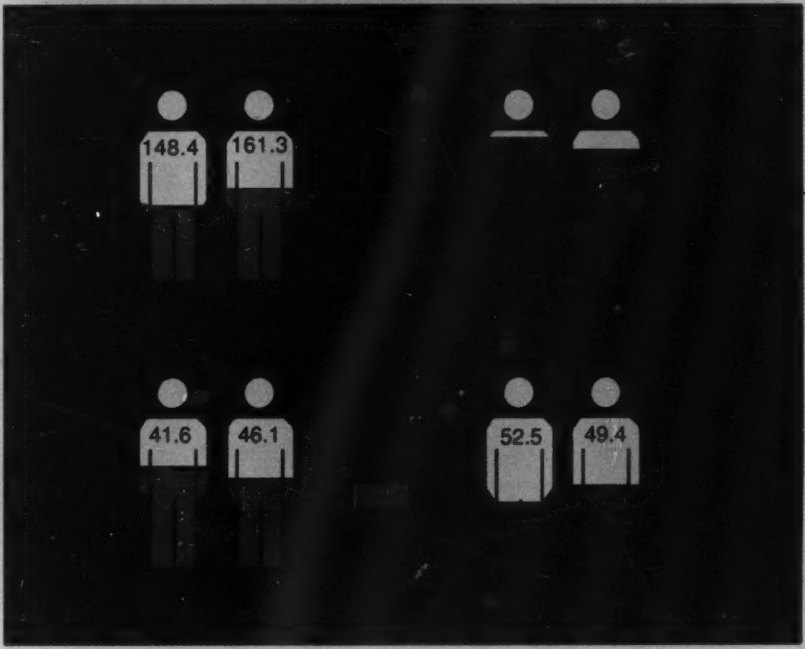
Total insurance costs as a percent of total sales rose less than 1% for general liners but just over 10% for specialists. Figures indicate that there was a leveling off of insurance costs in 1986, although there are indications that a significant number of distributors decided to get by with less total insurance coverage than in the past.

EDP costs, however, provide unmistakable evidence of a decline in spending, reflected in sharp drops in inside EDP sales—sales of equipment for internal use—of 16.3% and 20.9% for general liners and specialists respectively. Drops can also be seen in outside EDP sales—sales of outside services; 5.9% for general liners and 8% for specialists. (See graphs and percentage comparisons included under **Computers and EDP.**)

Sales-per-employee as well as gross-profit-per-employee figures were mixed. For general liners, the figures were down 8% and 9.8% respectively, while specialists saw respective gains of 3.2% and 6.3%.

Trends discerned in mid-1987 as this survey was being compiled indicate an across-the-industry campaign to curtail costs. Stock replenishment is more selective with many shelves empty of secondary and tertiary items. Sales calls and merchandising are being streamlined or reduced; branch inventory and purchasing are being restricted or centralized; warehouse mechanization and other blue collar improvements remain on hold.

Distributors are determined to sustain customer service. The industry will compensate for smaller inventories and curtailment of some operations by measures such as drop-shipping and improved systems contracting.☐



Inventory and receivables

Few discernible trends could be evidenced from 1986 figures on inventory, receivables and stock turns for distributors.

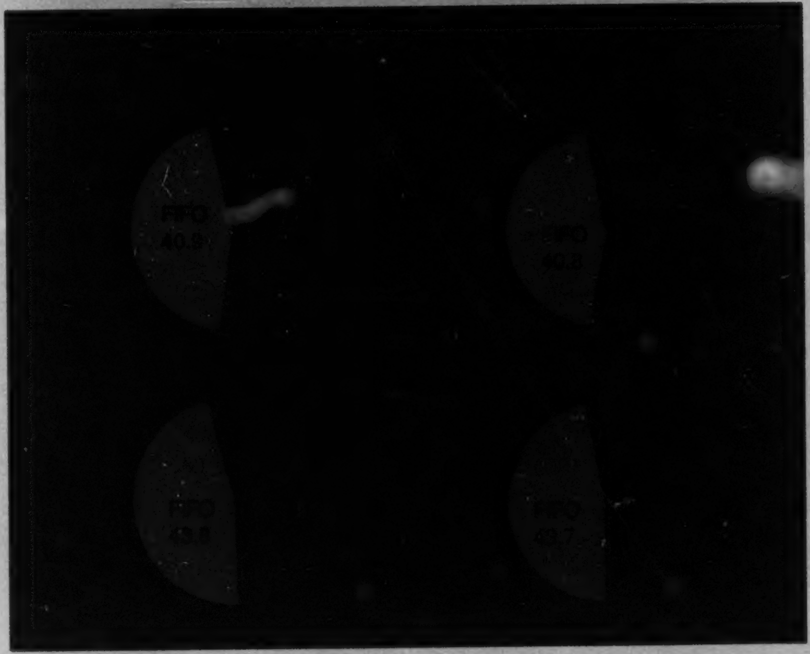
Average monthly inventory fell 5.3% for general liners but rose 4.2% for specialists. Receivables dropped 7.8% for general liners but rose 10.1% for specialists. Stock turns rose a healthy 17.9% for general liners but fell 3.8% for specialists. (Stock turns were calculated by multiplying the percent of shelf-stock sales at cost by total sales and dividing the result by the average monthly inventory value.) Only in collections were general liners and specialists close, falling 1.4% and 0.7% respectively.

With interest rates having fallen substantially in 1986 and the inflation rate low, collections were expected to drop. The national and regional tables at the end of this report bear this out.

Distributors' preferences in how they handled inventory valuation showed little change in 1986 compared to '85, with very little change indicated over several years. FIFO (first-in-first-out) inventory rose for both types of distributors by insignificant amounts in 1986. LIFO (last-in-first-out) inventory dropped 1.6% for general liners and 1.9% for specialists.

Last year's spotty sales were less a drain on specialists than on general line distributors. With shallower inventories to maintain, specialists optimistically replenished or added inventory. General line distributors, who were faced with carrying inventory in depth, invested less in slow sellers while maintaining their capital A items in order to sustain service to key customers.

Significantly, the ***ID*** survey shows specialized distributors dramatically increased their receivables (10.1%) compared to general line distributors' loss (8.7%). This indicates that in times of economic stress, the buyer often turns to the specialists to provide machine components and supplies for keeping existing equipment in operation. ☐



Business trends

Survey returns indicate that smaller distribution houses are not likely to expand stocking locations in 1987, while a significant percentage of the larger houses have expansion plans. Figures are mixed for 1986 vs. 1985, although the larger distributorships appear to have been more active in expanding operations.

The number of distributors with only one stocking location declined almost 3% in 1986 for general liners and 1.2% for specialists, compared to 1985 figures. Projections for 1987 are generally inconclusive for both types of distributors.

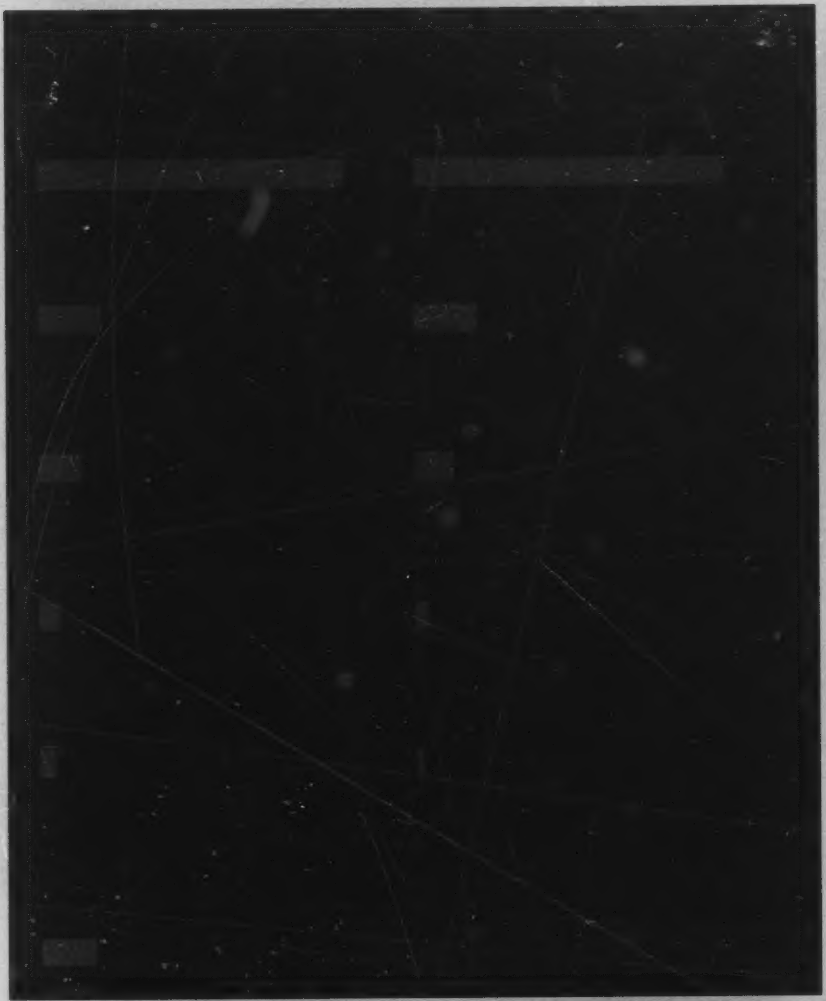
Although the "two"-stocking-location category gained for general line and specialist distributors in 1986, both are negative on expansion in 1987. In the "three" category, general line and specialist distributors predict increases in 1987 of 23.4% and 41.3% respectively.

Invoicing statistics representing the number of invoices per year fell 8.7% for general liners and 9.3% for specialists. In the lines-of-billing category, general liners were at zero or stayed even, while specialists rose a modest 2.9%.

The percent of gross profit from cash discount, an elusive figure to obtain before computerization simplified the recordkeeping, shows a drop of 6.7% for general line houses, with specialists moving up 11.1%.

The prevailing mood is "wait and see," particularly now that many economists are tempering their forecasts with talk of an impending recession (in some cases a deep recession) in 1988. Meanwhile, at association meetings and elsewhere, discussions center around moves by distributors toward more aggressive marketing, tapping into new markets, particularly high-tech, and streamlining internal operations mainly through sales- and service-oriented telecommunications.☐

Complete copies of the 41st Annual Survey of Distributor Operations are available in report form. For more information, see pg 35



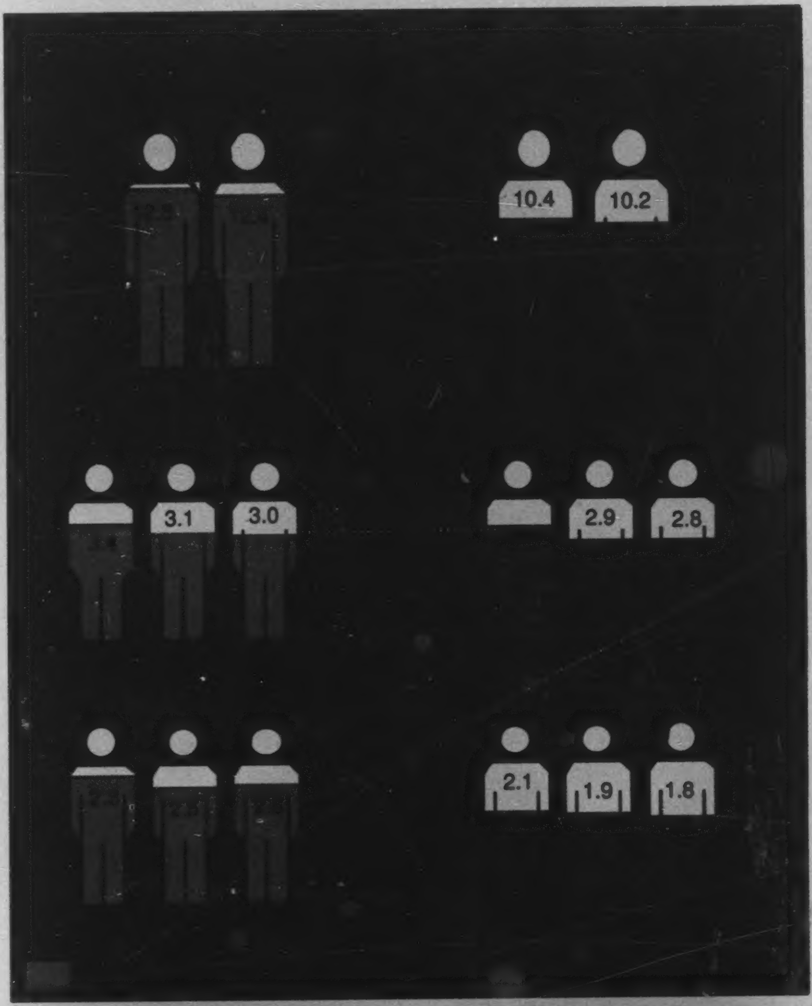
Personnel

Personnel figures show small increases in 1986 in the number of full-time employees as well as outside salespeople. Inside-sales figures were down for general liners and up for specialists. Total compensation fell in both distributor categories.

A gain of 3.2% in personnel for general liners and 2% for specialists, 1986 over '85, indicated some continued business strength in the industry and certainly no fear of recession at year's end. This feeling is also reflected in '87 forecasts that show an intended increase of outside sales personnel of 9.7% by general liners and 13.8% by specialists.

For inside sales in 1987, the figures predict a personnel increase of 12% for general liners and 22.2% for specialists. In 1986, general liners decreased inside sales personnel 3.8%, while specialists showed a 5.6% increase.

Total compensation figures fell a significant 14.8% for general liners and 8.2% for specialists in 1986. These statistics indicate a drive by distributors to cut overhead. In last year's survey, compensation had fallen only slightly for general liners and had risen appreciably for specialists.☐



Warehouse space

Total warehouse space increased only 1.1% for general line distributors, but rose over 12% for specialists. Some 21% of general liners and 19% of specialists surveyed reported they intended to add space in 1987. Almost 80% of the general liners and 81% of the specialists indicated they intended to reduce warehouse space this year.

Expanding warehouse space is one of the few investments distributors appear to favor. Reason: the value of real estate, particularly in developed business and industrial centers, will continue to climb indefinitely.☐

Computers and EDP

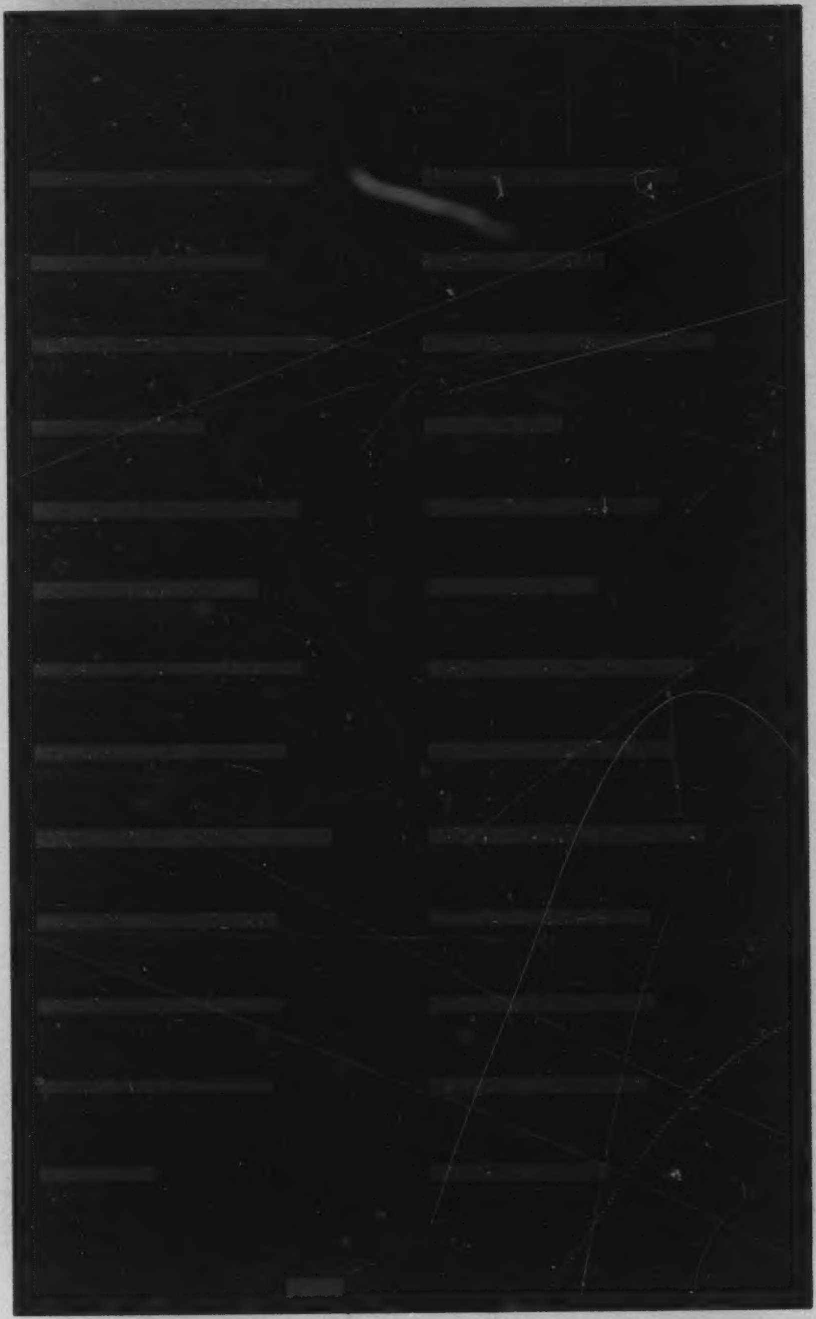
A sharp drop in spending for EDP systems in 1986 is evident, the first drop since the heavy buying of systems began in 1983. Only a small percentage of distributors computerized in 1986, the amount tapering off due to the fact that the industry is now over 75% committed to EDP hardware and software. Applications, however, continued to increase.

Over 76% of general line houses and 72% of specialists are now computerized, with increases of 1.3% and 6.2% respectively over 1985. In 1984, the figures were 67% and 65%. The small increase may be partially due to the maturity of the industry in this area, but the economic persistence of slow growth over the past few years may also be a factor.

A new category, "word processing," was added to the survey this year and, as the graph indicates, is the fastest growing area of computer use; general liner use was up 25.7% and specialist use was up 27.2%, 1986 over '85. The accent on marketing, especially in the past year, must be related to this growth and certainly more growth is expected this year in word processing.

In other categories, accounts receivable continues to record the highest percent of computer applications, 89.3% for general liners and 88.6% for specialists, followed by billing at 89.3% and 83.8% respectively. The other leaders include accounts payable and sales analysis. Payroll still accounts for a relatively small percent of use, with 52% for general line houses and only 41.9% for specialists.

Another area of use that continues to grow for distributors is perpetual inventory recording which now constitutes 84% for general liners and 76.6% for specialists. Almost all computer application categories were up in 1986, indicating a growing dependence by distributors not only on hardware but particularly on advanced equipment.☐



Combination houses

The information on the preceding pages covers firms qualifying as industrial distributors—those companies that sell industrial and related products to manufacturing, construction, mining, and other industrial users. The following section offers information on that segment of distribution that divides its business between industrial and non-industrial markets, such as the automotive aftermarket and the wholesaling of plumbing or electrical supplies.

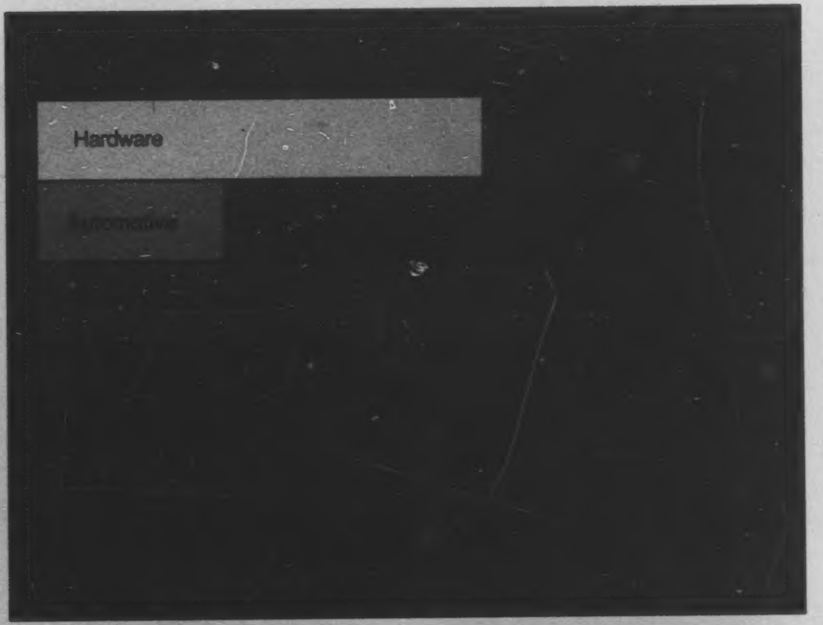
Combination houses had a median sales increase of 3.2% in 1986, slightly lower than the 3.3% recorded in 1985 (not plotted graphically). The gross profit figure for both general liners and specialists combined was 23.1% in 1986 vs. 22.9% in '85, up only 0.2%.

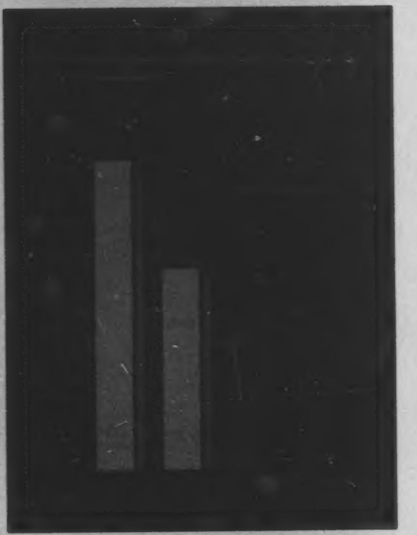
Overall figures indicate a slight improvement in sales but mixed results in profits for the past year. Total sales were up 11.5% for general liners, from $4.3 million in 1985 to $4.8 million in '86, and 4.3% for specialists, from $2.3 million in 1985 to $2.4 million in '86. Although gross profit improved 2.2% for general line houses in 1986, it fell by the same percentage for specialists (see graph).

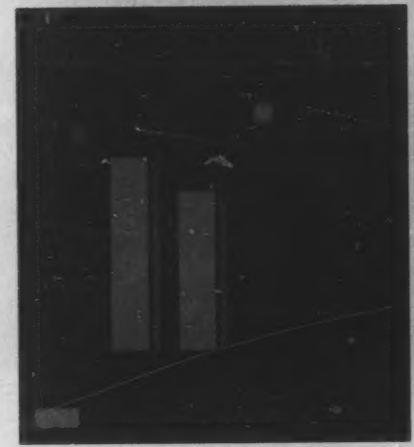
Other statistical comparisons indicate flat shelf-stock sales, year to year, for both general liners and specialists. Also, in an area where specialists continue to outperform generalists, average monthly inventories were up less than 1% for generalists, ahead 25% for specialists.

The small increase in total sales for specialists depressed their stock turns 17%, from 4.7 in 1985 to 3.9 in '86, while general liners improved stock turns 10.3%, from 3.9 in 1985 to 4.3 in '86. Collections showed very little difference for both general liners and specialists, dropping about 2% for the former, rising the same amount for the latter. This is surprising given the rapid fall in interest rates in 1986 with little concern for inflation throughout the year. Receivables in terms of number of days fell in many other industries in 1986.

For all combination houses the greatest proportion of products sold in the past year was electrical, totaling 48.5%, up 2% from last year's survey. Undoubtedly, the sharp increase in new home construction contributed to this demand. Plumbing and heating products accounted for 37.8% of combination house sales, followed by hardware at 32.7%, automotive at 13.8%, and metal service products at 9.2%. Miscellaneous items in the "other" category contributed 17.3% to total sales volume.







Non-industrial sales continue to rise for combination houses. Since the 1982-83 recession, demand for product sales in the industrial markets has fallen, while sales into special areas of the non-industrial market have risen. Although last year's figures are not repeated for comparison in this category, the increase in non-industrial sales has been approximately 2% per year since 1984.

Other analyses of combination houses (not plotted graphically) show that while both generalists and specialists project slight increases in their staffs in 1987, the increases are not significant to constitute a meaningful percentage. With regard to warehouse space, 6.6% of general liners and 19% of specialists report having expanded space in 1986. Additionally, 9.8% of general line houses and 4.8% of specialty shops plan to open new stocking locations in 1987.☐

Condensed table for comparison and analysis

	National		Your figures	Northeast		Your figures
	'86	'85		'86	'85	
Total sales ($ millions)	1.9	1.9	______	2.3	2.4	______
Cost of goods sold (% of total sales)	72.5	72.1	______	71.4	71.1	______
Gross profit (% of total sales)	27.6	27.3	______	29.8	29.3	______
Total operating expenses (% of total sales)	25.0	24.8	______	25.7	25.6	______
Net profit before tax (% of total sales)	3.1	3.1	______	2.6	2.8	______
Net profit after tax (% of total sales)	2.6	2.5	______	2.3	2.5	______
ROI (return on net worth)	7.3	7.7	______	6.1	6.7	______
Sales per employee ($000)	171.2	171.2	______	172.9	196.7	______
Gross profit per employee ($000)	47.2	46.7	______	51.5	57.6	______
Monthly inventory value (LIFO, $000)	294.0	316.0	______	183.0	180.0	______
Receivables value as of Dec. 31 ($000)	190.0	192.0	______	179.0	200.0	______
No. days outstanding as of Dec. 31 ($000)	42.6	42.9	______	43.2	42.6	______
No. of invoices billed (000)	7.2	7.7	______	9.8	11.8	______
No. of lines billing per invoice	3.6	3.5	______	3.9	3.7	______
No. of employees	11.1	11.1	______	13.3	12.2	______
No. of outside salespeople	3.0	2.9	______	3.0	2.9	______
No. of inside salespeople (phone & counter)	3.3	3.1	______	3.5	3.4	______
Warehouse sq ft (including branches, 000)	8.4	7.9	______	9.5	8.6	______
No. of branch locations	1.2	1.2	______	1.2	1.2	______
Total payroll & fringes (avg., $000)	307.0	349.6	______	322.5	371.0	______

	South Atlantic		Your figures	North Central		Your figures
	'86	'85		'86	'85	
Total sales ($ millions)	1.6	1.6	______	2.0	1.8	______
Cost of goods sold (% of total sales)	73.1	73.6	______	73.5	72.7	______
Gross profit (% of total sales)	26.8	25.0	______	26.2	26.7	______
Total operating expenses (% of total sales)	24.8	24.1	______	24.5	24.5	______
Net profit before tax (% of total sales)	2.7	2.9	______	2.7	3.1	______
Net profit after tax (% of total sales)	2.2	2.4	______	2.5	2.4	______
ROI (return on net worth)	11.7	9.0	______	9.9	7.7	______
Sales per employee ($000)	125.0	136.8	______	192.3	176.5	______
Gross profit per employee ($000)	33.5	34.2	______	50.4	47.1	______
Monthly inventory value (LIFO, $000)	494.0	525.0	______	280.0	311.0	______
Receivables value as of Dec. 31 ($000)	179.0	100.0	______	182.0	186.0	______
No. days outstanding as of Dec. 31 ($000)	41.0	41.2	______	42.0	42.8	______
No. of invoices billed (000)	7.1	6.3	______	6.8	6.8	______
No. of lines billing per invoice	3.5	3.2	______	3.4	3.4	______
No. of employees	12.8	11.7	______	10.4	100.2	______
No. of outside salespeople	2.9	2.7	______	3.1	2.9	______
No. of inside salespeople (phone & counter)	3.4	3.0	______	3.1	3.1	______
Warehouse sq ft (including branches, 000)	8.3	7.8	______	7.6	7.5	______
No. of branch locations	1.2	1.2	______	1.2	1.2	______
Total payroll & fringes (avg., $000)	381.2	328.0	______	309.4	343.2	______

	South Central		Your figures	West		Your figures
	'86	'85		'86	'85	
Total sales ($ millions)	2.1	2.3	______	1.8	1.7	______
Cost of goods sold (% of total sales)	73.1	72.5	______	70.5	70.2	______
Gross profit (% of total sales)	26.5	26.5	______	29.4	28.7	______
Total operating expenses (% of total sales)	25.8	25.0	______	24.6	24.7	______
Net profit before tax (% of total sales)	3.3	3.1	______	4.5	4.0	______
Net profit after tax (% of total sales)	2.3	2.3	______	3.6	2.8	______
ROI (return on net worth)	4.0	4.2	______	7.5	13.5	______
Sales per employee ($000)	200.0	195.0	______	211.7	212.5	______
Gross profit per employee ($000)	53.0	51.7	______	62.3	54.2	______
Monthly inventory value (LIFO, $000)	357.0	447.0	______	257.0	275.0	______
Receivables value as of Dec. 31 ($000)	231.0	200.0	______	200.0	250.0	______
No. days outstanding as of Dec. 31 ($000)	43.3	43.2	______	43.7	44.2	______
No. of invoices billed (000)	7.8	7.5	______	4.5	4.9	______
No. of lines billing per invoice	3.7	3.7	______	3.5	3.6	______
No. of employees	10.5	11.8	______	8.5	9.0	______
No. of outside salespeople	3.1	3.2	______	2.6	2.7	______
No. of inside salespeople (phone & counter)	3.4	3.4	______	2.9	2.8	______
Warehouse sq ft (including branches, 000)	8.9	8.7	______	8.1	8.0	______
No. of branch locations	1.3	1.2	______	1.3	1.3	______
Total payroll & fringes (avg., $000)	347.0	341.0	______	272.0	348.6	______

Note: all figures are in medians, except where averages are specified.

Vol. 76 No. 8
INDUSTRIAL DISTRIBUTION
AUGUST 1987

Industrial Distribution

AUGUST 1987

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Orchestrating a pricing strategy

Industrial Distribution®

Vol. 76, No. 8/76th yr. A CAHNERS PUBLICATION AUGUST 1987

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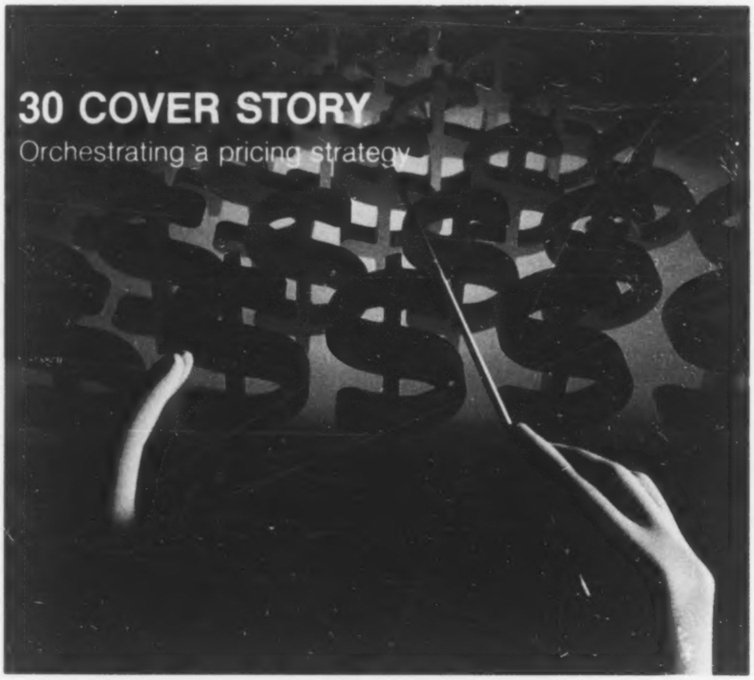

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Indicators . . .

The *NIDA/SIDA Industrial Distribution Index*, which follows the sales of industrial maintenance, repair and operating equipment, experienced a sharp decline in May of 8.1 points, plummeting to 143.0. The four reporting geographic areas also sustained declines: the East was down 9.9 to 132.6; the Midwest was down 8.6 to 117.2; the West was down 0.4 to 176.3; and the South was down 11.3 to 181.5. Overall, the May 1987 number of 143.0 was down 4.2 points from May 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.3 for May, up 0.1 points, or a change of 0.1%, over the previous month and down 1.8 points, or a change of 1.1%, from May 1986. . . . *SIDA's Monthly Sales Trend Report* for April showed a decline from the previous month. The 95 reporting locations experienced a 6.7% decrease in sales for April 1987 as compared with March 1987, a 1.0% increase in sales for April 1987 as compared with April 1986, and a 2.5% increase for the first 4 months of the year as compared with last year's first 4 months. In addition, 34 of the association's locations reported increased sales in April 1987 as compared with March 1987, 50 locations reported increases in sales from April 1987 as compared with April 1986, and 43 locations experienced increased sales for the first 4 months of 1987 as compared with the first 4 months of 1986. . . . The *ASMMA Two-Month Moving Average Index of New Orders, seasonally adjusted,* at 123.2, was down 3.7 points from March 1987 . . . The *Federal Reserve Board's Durable Manufacturers Index, seasonally adjusted,* which tracks industrial production of durable goods, was down 0.8 points in April to 128.9.☐

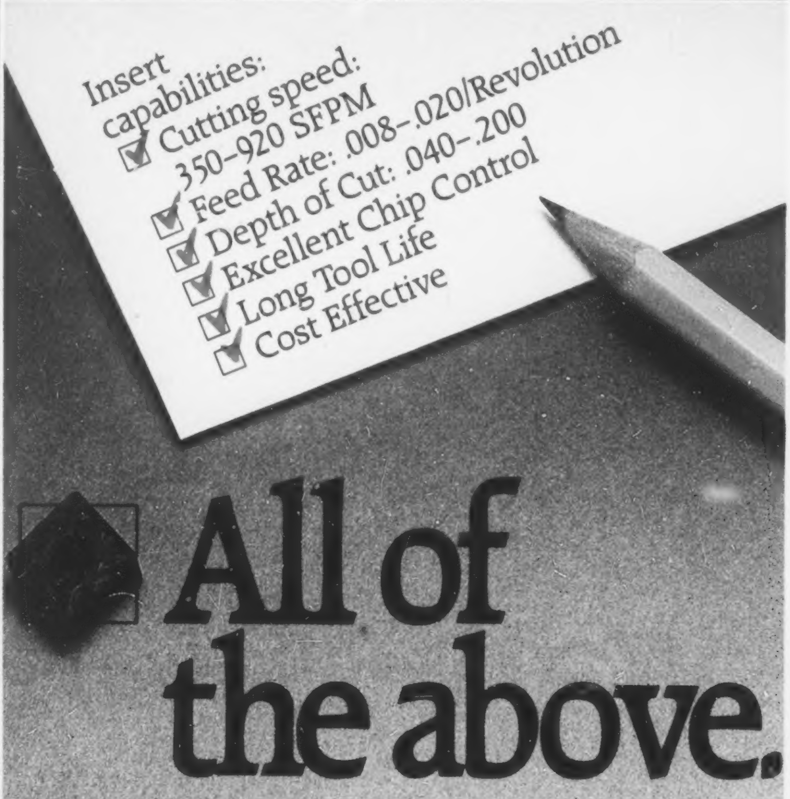
ing capacity. The idea, Bundschuh said, is to create new opportunties for Cushman and distributors by capitalizing on existing assets that are not being used.

The 125-year-old Cushman is the largest plant of its kind in the country as well as one of the oldest continuously operated companies in the country. The firm produces products for the machine tool industry.☐

C&B makes move into Tennessee

CHARLESTON, SC—Cameron & Barkley Co. has acquired two Tennessee distributors of power transmission and industrial supplies: Rogers-Bailey & Browning of Chattanooga and Browning Belting & Supply of Knoxville.

Cameron & Barkley began operating the two firms May 1. The



Tests have demonstrated that new Mitsubishi Carbide GRADE U 610, with the MA Chipbreaker, lasts as much as 3 times longer than competitive coated grades. That translates into a significant reduction of your budget for indexable insert purchases.

And because new GRADE U 610, a multiphase aluminum oxide coated insert, performs well at both higher and lower speeds, you'll find it to be a versatile tool which can minimize insert selection difficulties for both steel and cast iron machining. And that minimizes the need to inventory multiple grades.

Plus, the MA Chipbreaker is designed to enhance chip control for general purpose machining. For more information on this insert or our complete line, call or write: FABMET, 6351 Orangethorpe Avenue, P.O. Box 5930, Buena Park, CA 90622-5930. In California (714) 670-9217.

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FABMET

Mitsubishi Metal Corporation

BUSINESS REPORT

Auto slump hurting distributors

Distributors supplying the automobile, steel, glass, and plastics industries are expected to find less demand for their goods during the third quarter of this year. The reason for this, suggests the Federal Reserve Board, is that changes in auto output can affect nearly 30% of quarterly changes in overall economic activity.

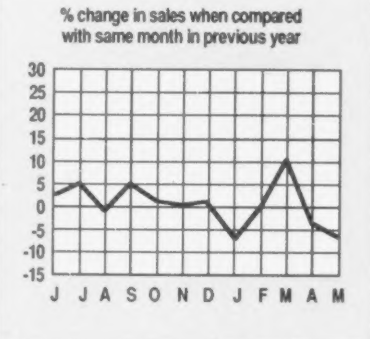
Detroit's problems are rooted in excess inventories accumulated during the first quarter of 1987 and its ensuing effort to correct overproduction. Second, economists note that in recent years Americans have continued to borrow more and save less. As a result, consumers must now replenish their savings before purchasing automobiles and other large-ticket items.

Reflecting this slowdown in auto activity are the East North Central states, which showed sales for general line distributors falling 8% between April and May, and sales for Upstate New York distributors, declining 17% during that same time.

During the past 18 months, explained Robert Marks of the economic consulting firm Siff, Oakley & Marks, car prices have risen faster than family income. Whereas the ratio of average new car prices to median family income stood at 43.5% in 1984, today that figure is 46.9%. To compound this problem, Detroit has been steadily moving its prices upwards under the protective cover of the rising yen.

As a consequence, automobile sales in monthly May comparisons were the worst since the recession of 1982. U.S. sales for all cars, domestic and imported, fell 6.9% to a rate of 7.6 million units for 1987, which will be followed by a scant 2.1% increase to 7.8 million units in'88.

The effects of Detroit's deceleration, conclude analysts, could easily be felt by distributors through the remainder of 1987.—**J. Bonnanzio**


% change in sales when compared with same month in previous year

RECEIVABLES*

	May '87		vs. May '86	
	Gen.	Spec.	Gen.	Spec.
New England	45	—	41	—
Middle Atlantic	47	42	47	42
South Atlantic	37	35	36	36
East No. Central	36	36	41	37
East So. Central	35	31	34	32
West No. Central	48	—	43	—
West So. Central	35	37	39	39
Mountain	38	43	36	40
Pacific	35	42	34	45
National	40	38	39	39

*Average days outstanding

SALES BY REGIONS (% change)	May '87 vs. April '87			May '87 vs. May '86			First 5 mos. '87 vs. First 5 mos. '86		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
New England: CT, RI, MA, NH, VT, ME	−9	+6	−7	+3	−7	+1	0	−11	−2
Connecticut	−7	−7	−7	−6	−14	−5	−7	+10	−7
Massachusetts	−13	—	—	+16	—	—	+6	—	—
Middle Atlantic: NY, NJ, PA	−8	−5	−6	−4	−4	−4	−8	−5	−6
New York Metropolitan Area	−1	−1	−1	−3	+3	0	−6	−1	−4
Upstate New York	−18	−16	−17	+1	+4	+2	−8	+5	−3
Pennsylvania	−8	−4	−5	−10	−12	−11	−8	−10	−9
So. Atlantic: DE, DC, MD, VA, WV, GA, NC, SC, FL	−3	0	−1	−20	+4	−4	−18	+7	−1
Georgia-Florida	—	+2	—	—	+3	—	—	+7	—
East No. Central: OH, IL, IN, MI, WI	−8	0	−4	−6	−5	−6	−3	−1	−2
Indiana	−5	—	—	−10	—	—	−9	—	—
Wisconsin	−8	+5	−1	−15	+5	−1	+3	+11	+8
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	−11	—	—	−19	—	—	−13	—
Ohio	−14	—	—	−23	—	—	−18	—	—
East So. Central: AL, MS, KY, TN	−7	−16	−14	+22	+3	+7	+18	+4	+6
West No. Central: MN, ND, SD, IA, NE, KS, MO	−39	—	—	−27	—	—	−2	—	—
West So. Central: AK, LA, OK, TX	−5	+11	+6	−8	+6	+2	−2	−6	−5
Texas	—	−16	—	—	0	—	—	−6	—
Mountain: NM, AZ, CO, UT, NV, WY, MT, ID	+3	−10	−5	+8	—	—	+6	+2	+3
Pacific: CA, OR, WA	−12	−10	−11	−10	−1	−5	−1	+7	+4
LA-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	−14	−3	−9	−13	−1	−7	−7	+6	0
U.S. TOTALS	**−12**	**−2**	**−7**	**−9**	**−1**	**−4**	**−4**	**0**	**−2**

Industrial Distribution

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September 1987

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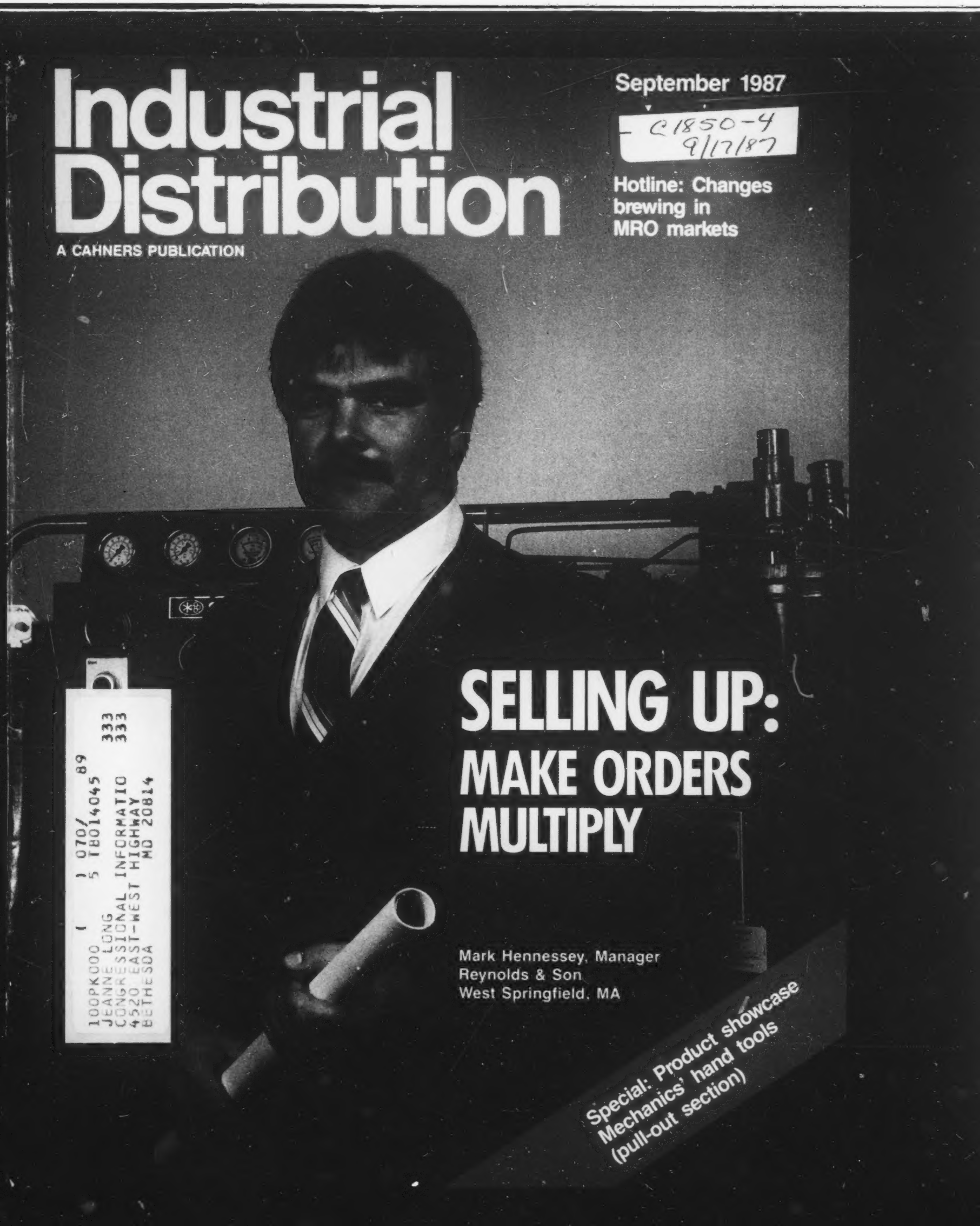
9/17/87

Hotline: Changes brewing in MRO markets



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Industrial Distribution®

Vol. 76, No. 9/76th yr. A CAHNERS PUBLICATION September 1987

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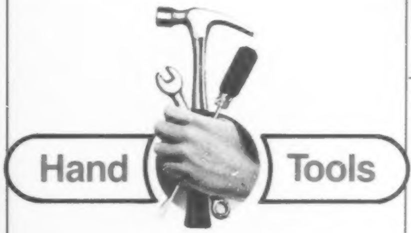

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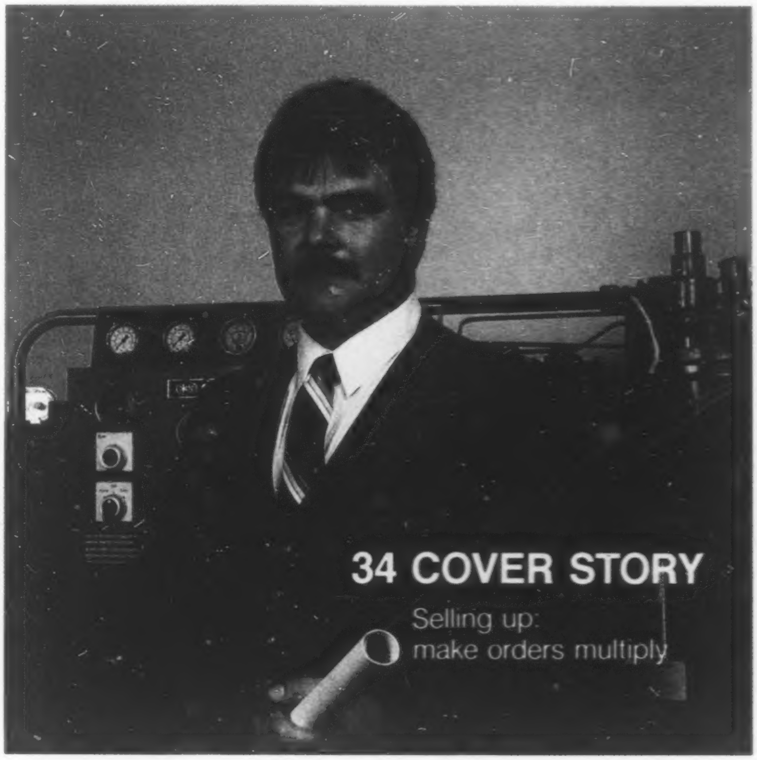

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NOVEMBER:
Computer/Telecommunications special report

INDUSTRY NEWS...

Prophet 21 provides computer system for Aggie ID curriculum

YARDLEY, PA—Prophet 21, Inc., which currently has an industrial distribution customer base of nearly 350 business management computer systems, has delivered a second system to the Texas A&M School of Engineering.

Slated for use by students in the school's industrial distribution curriculum, the new system uses Prophet 21's recently developed XL-Series software.

Stephen Pearce, visiting assistant professor in the Engineering Technology Dept., says the school "views the students' experience with the Prophet 21 system as a valuable asset" that can be mar-

[continued on page 16]

Indicators . . .

The *NIDA/SIDA Industrial Distribution Index*, which follows the sales of industrial maintenance, repair and operating equipment, experienced a slight decline in June of 2.4 points, dropping to 140.5. Three of the four reporting geographic regions sustained declines. The East experienced a gain of 0.8 to 133.4, the Midwest was down 1.9 to 115.3, the West was down 5.9 to 174.1, and the South was down 3.1 to 178.4. Overall, the June 1987 national index figure of 140.5 was down 1.2 points from June 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.5 for June, up 0.2 points, or a change of 0.1% over the previous month and up 1.8 points, or a change of 1.1% from June 1986 . . . *SIDA's Monthly Sales Trend Report* for May showed a decline from the previous month. The 107 reporting locations experienced a 2.8% decrease in sales for May 1987 as compared with April 1987, but a 6.4% increase in sales for May 1987 as compared with May 1986 and a 7.4 increase for the first 5 months of 1987 as compared with the first 5 five months of 1986. In addition, 42 of the association's locations reported increased sales in May 1987 as compared with April 1987, 55 locations reported increases in sales for May 1987 as compared with May 1986, and 54 locations experienced increases for the first 5 months of 1987 as compared with the first 5 months of 1986 . . . The *ASMMA Two-Month Moving Average Index of New Orders, seasonally adjusted*, at 128.0 for May, was 4.8 points higher than in April 1987 . . . The *Federal Reserve Board's Durable Manufacturers Index, seasonally adjusted*, which tracks the performance of the industrial production of durable goods, was up 0.5 points in May to 130.4.☐

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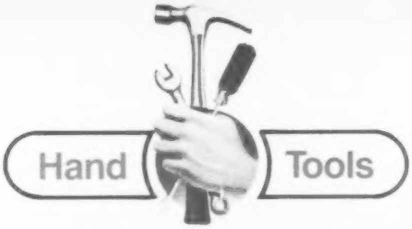


Where to capture the hand tool dollar

Americans are purchasing hand tools at the rate of nearly $4 billion per year. By 1995, says New York-based Business Trends Analysts, that figure could easily soar to over $7 billion.

According to figures prepared by ***ID*** for this report, some 40% of the total market for hand tools is sold by industrial distributors, a value approaching $1.6 billion. Although the majority of hand tools is purchased by consumers as oppossed to commercial end users, opportunity abounds for those distributors prepared to direct their sales efforts accordingly.

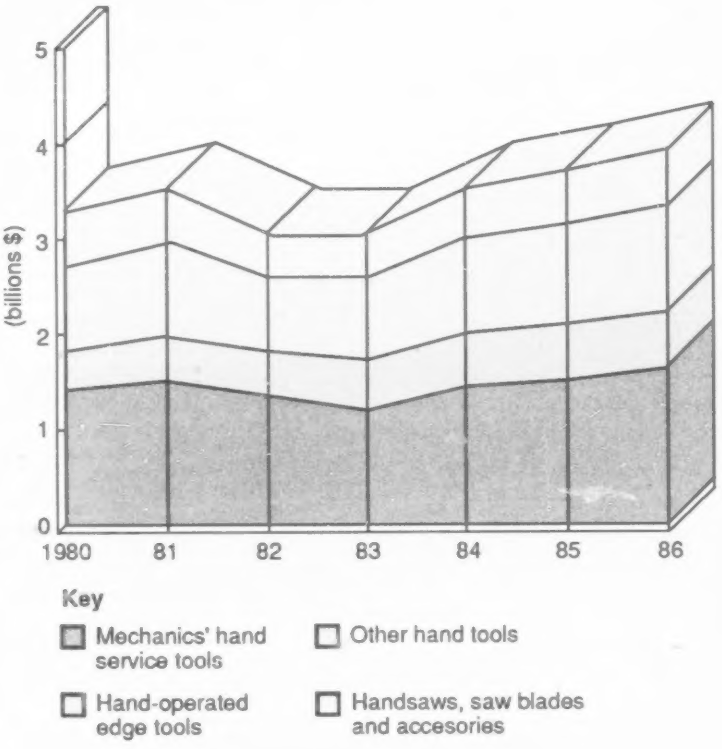
Opportunity, however, does not always come easily. The *1985/86 ID Census of Industrial Distributors* indicates that there are 3,648 specialty hand tool distributors in the U.S. and Canada, and 6,000 distributors overall, carrying hand tools as a regular part of their product line. Add to that the number of hardware stores, lumber yards and retail home centers, and suddenly the road to prosperity seems paved with discount screwdrivers, not higher-priced, higher-grade American products.

Although the U.S. hand tool market is sizeable, there are a number of barriers keeping distributors from accessing every tool segment. One market effectively closed to distributors is the do-it-yourself (DIY) business. According to the Do-It-Yourself Institute, approximately 75% of all American households participate in the DIY marketplace, purchasing tools in every category from automotive repair to home repair.

The DIY market is dominated by some very large players, such as

John G.F. Bonnanzio
Associate Editor

U.S. manufacturers' sales of hand & edge tools: 1980-1986



Sales by product category

Year	Mechanics' hand service tools	Hand-operated edge tools	Other hand tools	Handsaws, saw blades and accessories
1980	1,410	392	900	573
1981	1,527	456	966	561
1982	1,331	470	798	441
1983	1,183	506	889	477
1984	1,443	552	998	527
1985	1,531	579	1,063	543
1986	1,641	608	1,108	577
1995	3,216	979	1,982	1,109

Source: U.S. Dept. of Commerce and Business Trends Analysts

INTENTIONAL
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Sears, True Value and Pergaments. These "home centers" retail their wares offering, for the most part, lower-priced non-professional-grade tools for the weekend hobbyist. Unfortunately this leaves little opportunity for the distributor to capture any part of this $1.3 billion market.

After dissecting the various segments of the $4 billion hand tool industry, what remains for the industrial distributor is a $1.6 billion share of the pie. Although Dept. of Commerce figures indicate that dollar sales for hand tools have been steadily increasing, the $4 billion market shrinks to $2.9 billion when measured in 1980 dollars.

Obviously, this is not the case. Many distributors sell much more than that, many more do not. While most distributors carry a variety of hand tools, little effort is generally made to merchandise them. Often, hand tools are viewed by the distributor as add-on or tie-in products, but as margins are healthy in selling high-grade industrial hand tools, the distributor should look to these products with renewed vigor.

Consider the individual who enters a showroom to purchase a car. The real profit rests not with the car sale, but with the purchase of bank financing, rustproofing, warranties, anti-theft locks, and towing insurance. Few enter a dealership looking to purchase these extras, but most everybody walks out with a trunk-load of add-ons.

Know your market

Of the four basic end-user markets, the largest of these is the DIY segment, which accounts for a third of all tool sales. Following it is the automotive service industry with 29%, the construction industry with 16% and original equipment manufacturers (OEMs) with 8.5%. All other sales to tradespeople (carpenters, plumbers, woodworkers, masons, and electricians) absorb the remaining 13%.

According to Business Trends Analysts, between 1972 and 1979 sales of hand and edge tools grew in real terms at an annual rate of 3.4%. Mirroring this performance was the GNP, which climbed during that same period at a yearly rate of 3.2%.

If such a formula seems too simple, it also makes for economic sense. Hand tool sales are directly tied to four major manufacturing sectors: automobile production, construction, do-it-yourselfers, and OEMs. Hand tools also show a sensitivity to interest rates. When the cost of borrowing money to purchase an automobile rises, consumption of automobiles and the tools used in their manufacture also declines. The same is true with the housing markets: when mortgage rates climb, housing starts fall and with them, tool consumption.

The mechanics' hand tool market

The largest segment of the hand tool market services the professional mechanic, the do-it-yourselfer and the OEM. In 1985, sales to these hand tool users stood at $3.6 billion. In the case of hand tools sold to the professional mechanic, 70% of sales are captured by the so-called "wagon jobbers"—vendors who display and deliver their merchandise directly to automotive repair shops and service stations. It is unlikely that a distributor could sell to the mechanics market without offering the same services.

For any distributor looking to increase penetration into this market, one very important fact should not be overlooked. The sale of mechanics' hand tools is directly tied to automobile sales. When passenger car sales rose to 9.2 million units in 1983, hand tool sales skyrocketed 22% the following year.

Imports of foreign-made automobiles also have an effect on domestic hand tool consumption. With few exceptions, offshore manufacturers tool their production standards to the metric system. The greater the number of such cars, the greater the need for metric tools over S.A.E. tools.

Other indicators worth examining are figures denoting the age of the U.S. automobile fleet. As the motor vehicle population grows older, the hand tool industry prospers. Connecting these two facts is the premise that as the U.S. auto fleet ages it will require more servicing. Therefore, the older the entire automobile population, the better the market for selling hand tools.

While this is good news for the hand tool industry, such benefits only ripple across the marketplace to the industrial distributor. The question then is where can the distributor go to chase the mechanics' hand tool dollars? The most likely place, suggest industry observers, is the OEM market.

The OEM market

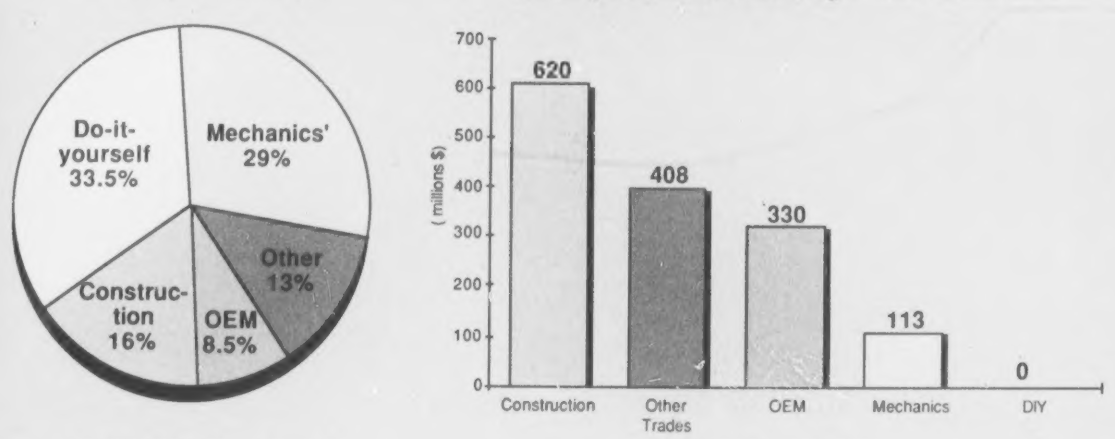
The Dept. of Commerce reported that, in 1985, $313 million worth of products, or 8.5% of all hand tool shipments, were consumed by OEMs. The downside is that as the nation's manufacturing base has shrunk, so too has the hand tool market. By comparison, in 1977 the OEM market stood at 10.1% of manufacturers' hand tool sales, a real decline of 16%. As the three largest OEM end users for hand tools are the auto, appliance and aircraft industries, the opportunity for an immediate turnaround continues to look doubtful.

Also working at cross-currents with the hand tool industry is, surprisingly, the re-tooling of industrial America. As older plants are slowly being replaced by newer, more efficient manufacturing facilities, hand tools are being phased-out wherever possible. High technology is taking hand tools away from people and placing power tools in the clutches of computer-numerical-controlled machinery.

One new opportunity emerging for distributors is, ironically, in the electronics market. A newer breed of so-called high-tech hand tools has found a very specialized market niche.

As semiconductor technology and electronic components continue to replace electromechanical systems, tools such as precision awls, diagonal cutters and phosphate-tipped screwdrivers have become essential in the manufacture of

1986 Industry purchases of hand and edge tools



Source: Business Trends Analysts and U.S Dept. of Commerce

***Estimates:** Industrial Distribution

printed circuit (PC) boards. Business Trends Analysts notes that sales of tools have grown 15% annually, and it expects to see market growth continue as long as PC-board production remains on American shores.

The construction market

In 1985, the construction hand tool market reached $590 million, or 16% of the industry's total sales. The greatest growth in the purchasing of hand tools has come from the market for single-family housing starts. Lower interest rates have spurred construction markets, particularly for smaller homes and office construction.

Wes Dils, president of Francis Wagner Co., El Paso, TX, indicates that sales of hand tools in his distributorship lag about 6 months behind building permits. Although hand tools do not make up a large part of his company's overall sales, this useful leading economic indicator helps Dils to forecast the amount of inventory he needs to keep on hand, as well as to ready his business when belt tightening is in order.

Although Dils reports that sales have been somewhat steady for his company's business, a recent Dun & Bradstreet report states that in 1986 the South was, as it will remain, the nation's worst geographical region for general contractors. "Due to deflated oil prices and a cutback in commercial development," states the report, "the value of new, private, non-residential construction declined 11% from 1985 to 1986."

Other major metropolitan regions of the country are facing a significant oversupply of commercial space. New office construction has slowed nationally, and distributors of hand tools servicing this market have begun to feel its effects.

Additionally, the fallout from the Tax Reform Act of 1986 is having a short-term negative impact on the general contracting industry. Recent restrictions on real estate tax shelters have sharply reduced investment in commercial buildings. For the next several years this deceleration in new capital investment is expected to continue, until rents increase to cover costs more fully.

The future for hand tools

Future sales trends for the hand tool distributor will ultimately depend upon the nation's construction activity, automobile production and original equipment manufacturing. However, according to a growing number of economists, such seemingly extraneous influences as Third World debt, the global economy, unbalanced budgets, and massive trade deficits are now finally haunting the economy.

As major banking centers continue to increase their bad loan reserves, these costs will be passed along the borrowing chain and be paid for by healthier markets. The resulting effect could be a prime lending rate moving upwards in months and years ahead. Also, Congressional resolve for stronger barriers against offshore dumping will, one way or another, have an impact on future trade balances.

Still, labor-intensive manufacturing continues to be undermined by offshore competition and the rate at which government spending on non-income-producing defense projects moves ahead, virtually unimpeded. Like so many other sectors of American industry, hand tool sales and hand tool production will, in the end, depend on the nation's resolve to maintain its industrial economic base.☐

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Industrial Distribution

A CAHNERS PUBLICATION

October 1987

Hotline:
Prospecting
for profit

SUPPLIERS' CHOICE:

TOP DISTRIBUTORS

Special: How to sell
PT components

Industrial Distribution®

Vol. 76, No. 10/76th yr. A CAHNERS PUBLICATION October 1987

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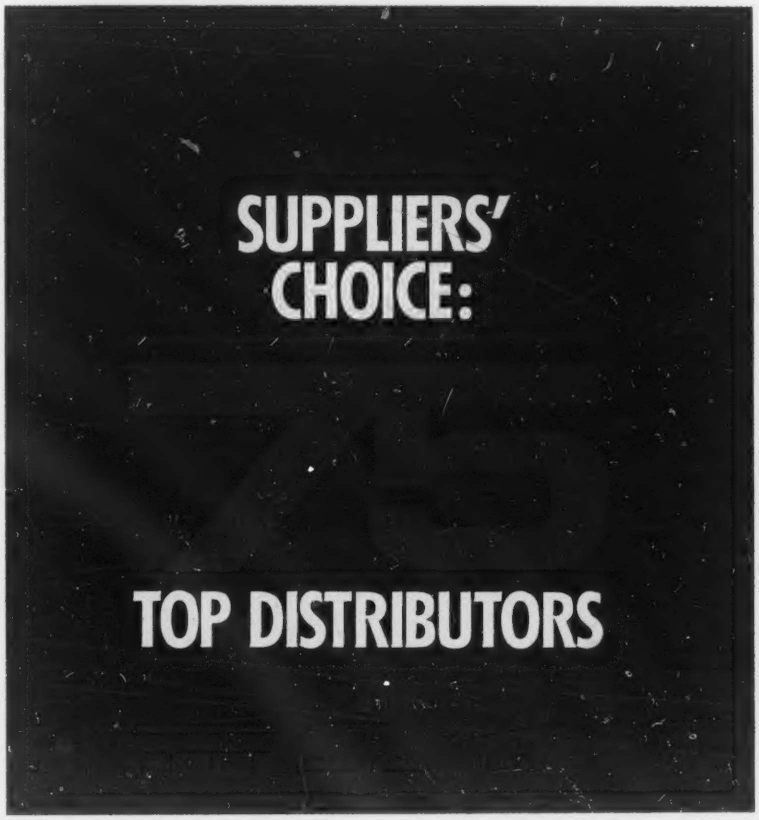

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INDUSTRY NEWS...

started in August and may continue into next spring. In addition, sometime this year a federal grand jury is expected to indict importers and distributors allegedly involved in counterfeit fastener operations.☐

Ingersoll-Rand buys Seattle-based Beebe International

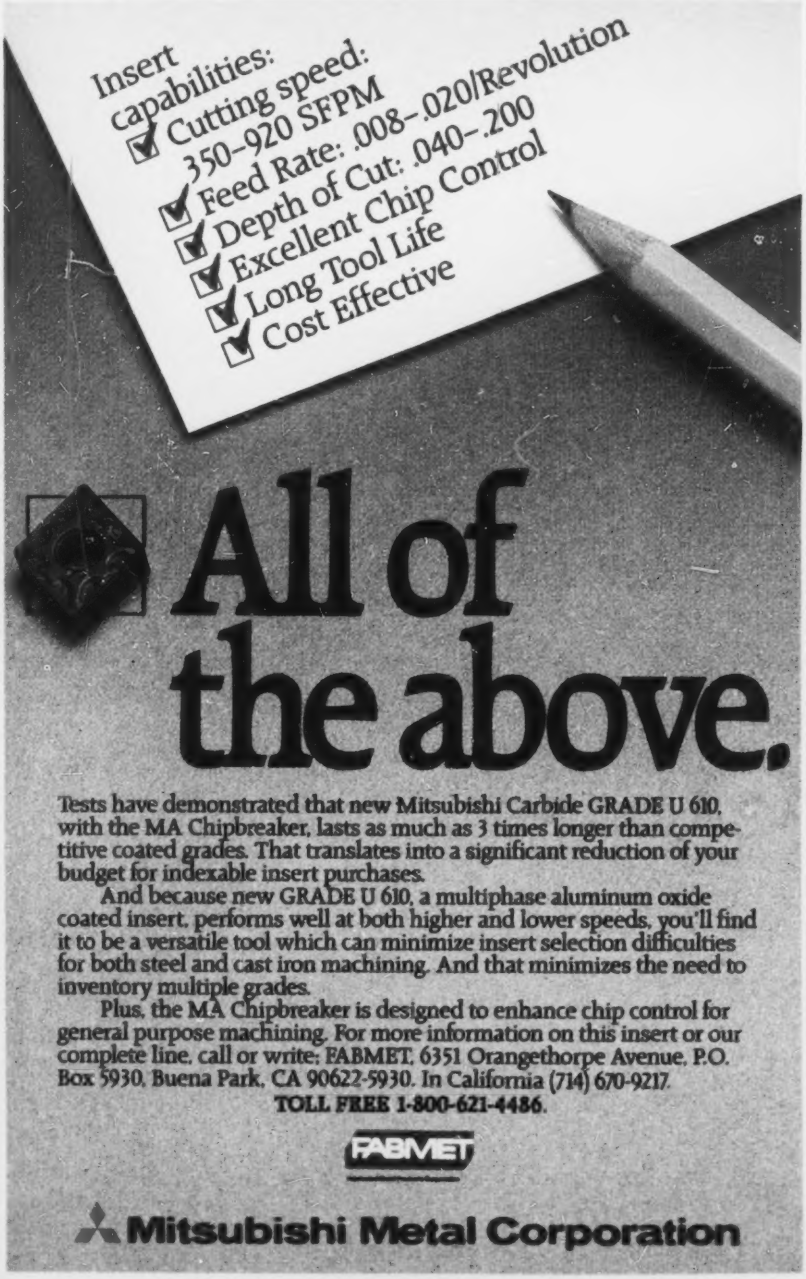
WOODCLIFF LAKE, NJ—Ingersoll-Rand Co., a leading manufacturer of industrial machinery and construction equipment, acquired Seattle-based Beebe International Aug. 5. Beebe is a producer of materials handling products.

Richard D. Johnson, a spokesman for Ingersoll-Rand, said Beebe will produce both Ingersoll and Beebe products at Ingersoll's Power Tool Div., headquartered in Liberty Corner, NJ. The products include hand, air hydraulic and electric-powered lifting and pulling equipment.

Johnson explained that Ingersoll plans to ultimately fold Beebe into a single, focused materials handling division. He noted that Beebe's current marketing system, which includes industrial distributors, remains intact.☐

Indicators . . .

The *NIDA/SIDA Industrial Distribution Index,* which follows the sales of industrial maintenance, repair and operating equipment, experienced a hefty 9.1 point increase in July, surging to 149.6. All three reporting geographic regions sustained increases. The East was up 8.7 to 142.1, the Midwest was up 8.7 to 124.0, the West was up 7.4 to 181.5, and the South was up 11.2 to 189.6. Overall, the July 1987 number of 149.6 was up 3.2 points from July 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.3 for July, down 0.2 points, or 0.1%, from the previous month and up 1.2 points, or 0.7%, from July 1986 . . . *SIDA's Monthly Sales Trend Report* for June showed an increase from the previous month. The 101 reporting locations experienced a 6.8% increase in sales for June 1987 as compared with the previous month, a 14.4% increase in June 1987 as compared with June 1986, and a 6.5% increase for the first 6 months of 1987 as compared with the first 6 months of 1986. In addition, 69 of the association's locations reported increased sales in June 1987 as compared with May 1987, 72 locations reported increased sales in June 1987 as compared with June 1986, and 59 locations reported increased sales for the first 6 months of 1987 as compared with the first 6 months of 1986 . . . The *ASMMA Two-Month Moving Average of New Orders, seasonally adjusted,* at 126.3 for June 1987, was down 1.7 points.☐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☑ Depth of Cut: .040-.200
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☑ Long Tool Life
☑ Cost Effective
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SUPPLIERS' CHOICE:
75
TOP DISTRIBUTORS

Management is the key reason that companies are rated tops.

In the real world of distribution what is a valid measure of success? Is it gross revenues? Is it number of branches or employees? Is it size of territory or number of outside and inside salespersons? Is it size of inventory and annual stock turns? Or is it the fact that you're at the leading edge of your industry with computers, telemarketing and electronic ordering?

In distribution, it may be all of these and more. But too many surveys conducted primarily to compare businesses automatically rank companies by total revenues over a given period as though sales alone are the ultimate measure of success.

When companies with the best sales records are put at the top of the list, it suggests that these companies have the best all-around records and that those that follow are secondary. This isn't the case in distribution.

Distribution is generally regarded as a small business as well as a people business. Company sales across the bulk of the industry range anywhere from around $1 million annually to $10-$15 million. There are few corporate giants in industrial distribution. So, because there is sameness, success must reflect more than sales or earnings.

For one thing, growth in the industry is too random. Distribution continually goes through periods of adjustment. In the past few years, this industry has been kept in a constant state of flux by shifting or disappearing industrial markets, discounting by competition, a need for internal upgrading, markets demanding new and sometimes unfamiliar lines, and drains on profits through new taxes and soaring insurance costs.

Sales volume and earnings one year may be followed by a slump or a dramatic boost the next, making a dollar-based measure of success questionable. So, one measure of success is how well the distributor applies his skills to sustain a profitable operation over the years.

Suppliers' choice

Avoiding a dollar-based survey, INDUSTRIAL DISTRIBUTION conducted THE TOP 75 survey in two stages. First, we selected the one group most familiar with distributors on a national scale. Customers were excluded because they deal with a limited number of local distributors. So ***ID*** polled those who know most about their distributors, namely suppliers' sales and marketing executives, some 2100 in all, who sell their companies' products through a nationwide network of industrial distributors.

Our editors sifted carefully through the responses and extracted THE TOP 75: those most mentioned by suppliers. This was our first measure of excellence.

Chicago-based McMaster-Carr Supply Co. topped the list based on five criteria of excellence (see table). Two southern distributors, Cameron & Barkley, Charleston, SC, and Briggs-Weaver, Dallas, TX, came in close seconds.

The fact that three distributors heading the list of 75 are known as giants in this industry (McMaster-Carr and Briggs-Weaver, Inc., both of which refused to provide data, and Cameron & Barkley with 800 employees and 1986 sales of $150 million) suggests that suppliers automatically named the major buyers and sellers of their products. Nevertheless, the fact that all of the suppliers who named these three generally rated them Good to Excellent in all five categories indicates the distributors were judged on more than purchasing power.

However, very few of THE TOP 75 distributors are considered giants. For example, Cincinnati Belting & Transmission, with 43 employees and rated Excellent in Management skills by the respondents, grossed $10 million in sales last year, making it average in sales volume but a winner in effective overall management.

Management is the key reason these companies are rated tops. When ***ID*** asked suppliers to rate their most respected distributors on five aspects of management style, their responses over the entire list of 75 top distributors ranged, overwhelmingly, from Excellent to Good. Any shortcomings, according to the suppliers, existed in distributors' Merchandising/Promotion skills.

Several of the top 12 (most mentions) rated almost perfect scores. Nearly all ratings for Garrett Industrial Supply Co., Los Angeles, CA, were Good to Excellent.

Ideally, a growth trend based on net earnings over a reasonably long period is probably the best measure of a distributor's "excellence." But so many distributors are privately held that earnings are rarely divulged. And since sales, size, number of employees, and other criteria alone or together may not provide enough information to measure "excellence," an independent survey like ***ID***'s uses other rating systems—in this case suppliers' educated opinions.

Not surprisingly, several distributors recognized among the largest either didn't make THE TOP 75 in this survey or were well down on the list in terms of number of mentions by suppliers. Distribution is replete with histories of companies with bulging ledgers that over-extended or were plainly mismanaged and either disappeared, are struggling to survive or remain average or less than average.

This survey proves that winners in distribution (1) command the hard-earned respect of those with whom they do business, (2) are well-managed in nearly every case, and (3) need not see size in terms of sales and assets as the goal of foresighted, profit-bound distributors.

75

E=Excellent
V=Very good
G=Good

	Management			Marketing/ Economics			Merchandising/ Promotion			Financial Acumen			Inventory Management		
	E	V	G	E	V	G	E	V	G	E	V	G	E	V	G
McMaster-Carr Supply Co.	●			●				●		●			●		
Cameron & Barkley Co.	●				●			●		●				●	
Briggs-Weaver, Inc.	●			●			●			●			●		
Garrett Industrial Supply Co.	●			●			●			●			●		
Motion Industries		●			●			●			●			●	
Vonnegut Industrial Products Inc.	●			●			●			●			●		
Ziegler Tools, Inc.	●				●		●			●			●		
Alamo Iron Works	●				●		●				●			●	
Berry Bearings Co.		●			●			●		●			●		
Harbor Tool Supply Co.	●			●			●			●			●		
Holloway Bros. Tools, Inc.	●			●			●			●			●		
Bearings, Inc.		●			●		●				●			●	
Texas Mill Supply & Mfg., Inc.		●			●			●			●		●		
Rex Supply Corp.	●				●		●			●			●		
C.L. Gransden & Co.	●			●				●		●			●		
Industrial Bearing & Transmissions		●		●			●				●		●		
Invetech Co. (Detroit Ball Bearing)	●				●			●			●		●		
Dillon Supply Co.	●				●			●			●			●	
Production Tool Supply Co.	●			●			●			●			●		
Noland Co.		●			●			●		●				●	
Apache Hose & Belting, Inc.	●			●			●			●			●		
Engman-Taylor Co.		●			●		●				●			●	
Fasteners, Inc.		●			●			●		●			●		
J. Fegely & Son Inc.	●					●		●			●			●	
W.W. Grainger, Inc.	●				●				●	●			●		
Kaman Bearing & Supply		●			●			●			●			●	
E.F. Bailey Co.	●					●	●				●			●	
Bearings & Drives Inc.	●				●			●		●			●		
Bossert Co.	●					●		●		●			●		
Industrial Supply Co.	●			●			●			●			●		
Quality Mill Supply Co.	●				●			●		●			●		
Southwest Industrial Supply Corp.	●				●			●		●			●		
B&J Industrial Supply Co.		●			●			●		●			●		
Boring & Smith Industries, Inc.	●			●			●			●			●		
Cincinnati Belting & Transmission	●					●	●			●				●	
Doussan, Inc.	●					●			●		●		●		
Empire Machinery & Supply Corp.	●					●			●		●			●	
Ensco Supply Co.		●		●			●			●			●		

Distributors are ranked based on number of mentions. Those grouped between bold lines received equal number of mentions and are listed alphabetically.

75

E=Excellent
V=Very good
G=Good

	Management			Marketing/ Economics			Merchandising/ Promotion			Financial Acumen			Inventory Management		
	E	V	G	E	V	G	E	V	G	E	V	G	E	V	G
J&L Industrial Supply Co.	●				●		●			●			●		
Kaner Co.		●			●		●			●			●		
Kel-Welco Distributing, Inc.		●			●		●				●		●		
King Bearing, Inc.	●				●			●			●			●	
Machine Tool Supply, Inc.		●				●		●		●				●	
Neill LaVielle Supply Co.		●				●		●		●				●	
Transply, Inc.		●				●		●		●			●		
Abco Hardware & Builders Supply	●			●			●			●			●		
Alaska Industrial Hardware	●			●				●			●		●		
Bamber Tool Supplies, Inc.	●			●				●		●				●	
Buford Bros., Inc.	●					●			●	●				●	
Carey Machinery & Supply Co.			●		●				●		●			●	
Carlson-Dimond & Wright Inc.	●					●		●		●			●		
Chicago Chain & Transmission Co.	●					●		●		●			●		
Fairmont Supply Co.	●			●					●		●		●		
GRS Industrial Supply Co.	●			●			●			●			●		
Walter R. Hammond Co.		●				●			●	●			●		
R.S. Hughes Co.	●			●			●			●			●		
Industrial Tool & Supply Co.	●				●		●			●					●
Krivo Industrial Supply Co.		●				●			●	●				●	
Lakeshore Machinery Inc.	●			●				●		●			●		
Laman-Loesche Supply Co.		●			●				●	●			●		
James McGraw, Inc.	●					●	●			●					●
McJunkin Corp.		●			●				●	●			●		
Phillips/Day & Maddock Inc.	●			●			●			●			●		
Plant Service Co.	●			●			●			●				●	
Pleasants Hardware Co.			●			●	●			●					●
C.W. Rod Tool Co.			●			●		●			●		●		
S&K/Air Power Tool & Supply Co.		●				●		●			●		●		
Satterlee Co.	●				●			●		●			●		
Shadbolt & Boyd Co.	●			●			●			●			●		
Southern Belting & Transmission Co.	●					●	●			●			●		
Spencer Products Co.	●			●			●			●			●		
Strong Tool Co.		●		●			●					●			●
Tracy Robinson & Williams Co.	●			●			●			●			●		
Travers Tool Co.			●		●		●				●				●
Turner Supply Co.		●				●			●	●			●		

Some distributors in THE TOP 75 have been acquired, divested or changed status since our research was conducted. They are still included in our list.

75

1

McMaster-Carr Supply Co.

Chicago, IL
Jay Delaney, President

1986 sales: $300-$500 million

Branches: 3 **Employees**: N.A.

This privately held, family-owned giant, which operates warehouses on both coasts plus one in Chicago, is purportedly the largest telephone and mail order general line distributor in the nation. Renowned for its reluctance to publicize its size or sales operating methods, this company, nevertheless, was named more often by suppliers as a top distributor than any other in the survey. Despite the fact that McMaster-Carr hasn't employed a single salesperson since 1948, sales now range, according to one source, from $300-$500 million annually. The company's major symbol is its 3-in.-thick, 2100-pg catalog with a closely spaced index listing some 33,000 items. McMaster-Carr's reputation rests mainly on its enviable customer service, highlighted by the size and great diversity of an inventory that extends far beyond the typical distributor's stock in trade. Case in point: the company's catalog features robotics, solar devices, fiber optics, and lasers. Founded in 1901.

2

Cameron & Barkley Co.

Charleston, SC
James Warren, President

1986 sales: $157 million

Branches: 45 **Employees:** 850

When CamBar recently announced it had chosen James Warren as its new president, the company sent a signal that it intends to pursue an ambitious acquisition program. To date, 45 CamBar businesses dot the Carolinas, Georgia, Florida, and Tennessee, while the states of Virginia and Alabama are rumored as likely expansion points. With sales evenly split between its industrial and electrical divisions, CamBar maintains specialties within each. Power transmission, packing and sealings, bearings, materials handling, and paints are its dominant products in the industrial sector. In its electrical division, factory automation is viewed as a growth area. Although sales of robotics are currently flat for the company, its sales of turnkey computer systems as well as programmable controllers remain healthy. Major markets include textiles, mining, chemicals, and agribusinesses. CamBar's 140 inside and 160 outside salespeople sell its $29 million inventory. The company is unique in that it is entirely employee owned. Founded in 1865.

3

Briggs-Weaver, Inc.

Dallas, TX
Rob C. Mellor, President

1986 sales: $110 million

Branches: 16 **Employees:** 560

The diversity of Briggs-Weaver's product line is illustrated by the 1200-pg catalog offered to customers. The company, which services largely MRO needs to the Southwest, stocks pumps, instruments and controls, safety products, filters, electrical equipment, bearings, hose, materials handling equipment, power and machine tools, hand and precision tools, abrasives, and cutting and threading tools. Briggs-Weaver maintains an on-line, computerized, automatic reordering system designed by the company to assist customers. One reason its inventory management system succeeds is Briggs-Weaver's ability to customize to meet specific client needs. Its Capital Equipment Div. is home to one of the largest, most diversified lines of capital equipment and materials handling products in the country. The company provides repair and rebuilding services, installation, consignment stocking, training seminars, and vendor stocking programs. Briggs-Weaver is a subsidiary of Samson Enterprises. Founded in 1896.

4

Garrett Industrial Supply Co.

Los Angeles, CA
David C. Duff, VicePresident/Div. Mgr.

1986 sales: N.A.

Branches: 10 **Employees:** 335

Although the company recently added a distributorship in Baltimore, for the time being at least, Garrett appears interested in enhancing only its existing operations. Committed to inventory management and customer service, Garrett is expanding its resources to achieve those goals. Taking particular pride in its sales force, the company employs 75 inside and 100 outside salespeople and boasts a competitive edge through extensive training at all employee levels. On average, the company fills 1700 orders each day. Customers' systems contracts account for 25% of sales. With the growth of just-in-time inventory requirements, the company reports that an increasing number of customers look to Garrett as an inventory source as an alternative to maintaining their own supplies. The company is an operating unit of Allied-Signal Co., an aerospace conglomerate with 1986 sales of $12 billion. Founded in 1936.

5

Motion Industries

Birmingham, AL
Michael S. Gaffney, President

1986 sales: $420 million

Branches: 161 **Employees:** 1900

Motion Industries claims high return on investments and no debt and employs more than 1900 people at its 161 branches. The company has 528 inside and 472 outside salespeople. Its area of business extends from California, the Midwest and throughout the southern half of the U.S. to Florida and up through Virginia. The company's goal is to cover the entire U.S. with additional branch openings and new acquisitions. Operating with the advantage of significant purchasing power, Motion Industries can set the pace in general line distribution. The company distributes hydraulic valves and pumps, valve actuators, programmable controllers, filters, electrical equipment, power transmission products, hose, and conveyor belting. With some 900 separate systems contracts comprising 25% of 1986 sales, daily billings are nearly $2 million, representing approximately 2700 orders. The value of the company's standard inventory kept on hand is $73 million. Founded in 1946.

6

Vonnegut Industrial Products

Indianapolis, IN
Thomas E. Kaercher, President

1986 sales: $36 million

Employees: 152 **Branches:** N.A.

One of the oldest privately held distributors in the country, 135-year-old Vonnegut carries some 600 product lines. With more than half its business devoted to systems contracts, the company actively pursues additional accounts widely seen as highly profitable. Of the company's 152 employees, 22 serve as inside sales people, including telemarketers. Another 43 persons comprise the outside sales force. The company credits its ability to outpace competitors to several factors: the broad range of products it carries, its in-house product specialists and its vast inventory, valued in excess of $45 million. Vonnegut stocks pumps, instruments and controls, programmable controllers, power transmission equipment, abrasives, and cutting tools. The company also invested in the latest warehousing equipment to quickly store and retrieve orders. Vonnegut plans to increase its advertising efforts in order to obtain more exposure with its audience. Founded in 1852.

75

7

Ziegler Tools, Inc.

Atlanta, GA
W.R. Ziegler, President

1986 sales: $15 million plus

Branches: 2 **Employees:** 90

While Ziegler conducts the bulk of its business from its main Atlanta facility, its Macon, GA, satellite branch assumed increased importance in the last few years. As a result, Ziegler is completing a new facility in Macon. Sales for this privately held general line distributor were "over $15 million" in 1986. Of its total business, approximately 10% represented sales through systems contracts, which the company actively tries to increase each year. Ziegler attributes its success to customer service and prompt delivery. The company carries 300 product lines with inventory levels in the $2½-$5 million range. Ziegler provides authorized service, assembly, 24-hour service, and technical assistance on all its major product lines. The company plans to increase its product line and expand into adjacent states. Founded in 1948.

8

Alamo Iron Works

San Antonio, TX
Carl Schenken, President

1986 sales: $50 million

Branches: 5 **Employees:** 360

Alamo Iron Works, self-described as "growth oriented," made the decision to expand through acquisition rather than by opening new branches. The general line distributor has five branches and a workforce of 360, which includes 100 salespeople evenly divided between inside and outside sales. This general line distributor fills 500 orders a day from the 400 product lines it carries. Spurred by the depressed oil services industry, Alamo reports it has "learned to make money." Faced with lower sales and a more competitive environment, the company steadfastly held onto its customer base by enhancing value-added services. Alamo maintains a fleet of 26 delivery vehicles that provide the capability of 24-hour delivery several hundred miles from its warehouse. Since last year, Alamo has used a software package that gives it a competitive advantage by allowing the company to adjust prices to a customer's specific needs. Alamo also offers a limited type of one-stop shopping for profitable specials via its machine shops, foundries, steel fabricating shops, and steel service center. Founded in 1878.

9

Berry Bearings Co.

Lyons, IL
Gardner Larned, President

1986 sales: N.A.

Branches: 80 **Employees:** 1000

Part of Berry's corporate strategy appears to include a desire to operate with as little publicity as possible. Information on how the company conducts its various businesses is very sketchy but it is obvious that manufacturers in this survey believe this distributor is very well run. Berry volunteered the information, however, that it is one of the largest bearing distributors in the country. The privately held company has bearing and power transmission branches in 15 states, from Billings to Baltimore. In addition, the company owns machine shops, fabricating facilities and a bearing manufacturing company. According to company sources, Berry plans substantial expansion in the next 24 months through product diversification and acquisitions. Founded in 1920.

10

Harbor Tool Supply Co.

Westwood, MA
Arthur Silbert, President

1986 sales: $20 million

Branches: 2 **Employees:** 95

Headquartered south of Boston, Harbor Tool has successfully adjusted to the radically shifting economy of New England. With ship repair and building all but gone from the immediate area, the company is cultivating new markets in Maine. Two more branches are scheduled to open in Maine during the next 4 to 6 months, and it seems that Harbor has chosen its markets well. The company fills an average of 800 orders a day and considers itself a general line distributor. However, the company does a robust business in the precision tool specialties, catering to the nearby high-tech markets along the Route 128 corridor and in Cambridge. The company carries an inventory of $1-$2½ million, merchandises 250 product lines and has a sales team of 28—14 inside and 14 outside salespeople. Systems contracts account for 10% of Harbor's business. The company keeps a carbide specialist on staff. Founded in 1946.

11

Holloway Bros. Tools,Inc.

Wilmington, DE
Jack Holloway, President

1986 sales: $10 million

Branches: 1 **Employees:** 43

This single-branch general line distributor currently derives 60% of its business through systems contracts. Holloway's sales force of 15, which is evenly divided between counter, outside and telephone salespeople, processes between 120 and 150 orders per day. Servicing the construction, chemical, petroleum, and utilities industries in and around the Delaware River and Chesapeake Bay areas, Holloway also provides authorized repair, assembly, 24-hour service, and technical assistance. In addition, general manufacturing, machine and fabrication shops are sources of business for this company of 300 different product lines. Inventory is placed at $2½-$5 million. Executives describe Holloway Bros. as highly disciplined with tight controls and a strong sense of inventory management. Founded in 1945.

12

Bearings, Inc.

Cleveland, OH
John R. Cunin, CEO

1986 sales: $490 million

Branches: 268 **Employees:** 3000

With 400 inside and 400 outside salespeople operating throughout 35 states, Bearings, Inc. is the largest independent distributor of bearings, power transmission components and related products in the U.S. The company, name aside, describes itself as "a supermarket of products." Having grown from a single facility 64 years ago, the company boasts that it added branches at a rate of four per year for 64 years. Today, Bearings, Inc.'s 250 branches carry 400 product lines, and systems contracts account for 50% of its sales. Part of the company's success is due to constant honing of the services available to customers. The company's primary markets include textiles, metals, pulp and paper, wood products, and railroad supplies. Concerned with the "deindustrialization" of America, Bearings, Inc. relies upon such value-added services as repair and rebuilding operations as well as training seminars to help sustain sales. The company recently launched a "We proudly sell American products" public affairs campaign. Founded in 1923.

Abco Hardware and Builders Supply

Lynwood, CA

Gerald S. Goldberg, President

1986 sales: $30 million plus

Branches: 8 **Employees:** 300

"Do unto others as you would have them do unto you" is plastered in large letters across pages 3 and 4 of Abco's 1000-pg, hard-bound catalog. So entrenched is the "good neighbor" policy that Abco will issue a check for lost time to customers affected by late deliveries. Abco secures employee dedication by what Goldberg calls one of the best plans in the industry. One long-tenured clerical employee, for example, recently left Abco with a check for $121,000, typical of the company's "good place to work" policy. Founded in 1938.

Alaska Industrial Hardware

Anchorage, AK

Josef F. Boehm, President

1986 sales: $18.25 million

Branches: 9 **Employees:** 102

By most standards, Alaska is considered an out-of-the-way location for doing business. Not so, for this, the largest of industrial distributors in the state. A general liner boasting branches in Fairbanks, Wasilla, Kenai, and Eagle River, much of this company's inventory is barged into Anchorage then flown to convenient locations like Prudhoe Bay, 500 miles north of the Arctic Circle. As products can take months to receive from the mainland, Alaska Industrial's inventory consists of 400 product lines worth more than $5 million. Founded in 1959.

Apache Hose & Belting, Inc.

Cedar Rapids, IA

William Nissen, President

1986 sales: $19 million

Branches: 5 **Employees:** 125

Financial stability, technical expertise and a strong inventory base help Apache Hose maintain steady profitability. The company's sales rose 3% in 1986. President Nissen said one of the company's strengths is its high-quality personnel. He noted that Apache started a 10-year program in 1985 to turn the company completely over to employee ownership. Nissen also said the belting specialist plans to add two branches within the next 5 years. The company has 16 inside,16 outside salespeople. Founded in 1963.

B&J Industrial Supply Co.

Seattle, WA

C.T. Burkland, President

1986 sales: $13 million

Branches: 1 **Employees:** 67

As U.S. shipbuilding heads for South Korea and other ports, carving out a new market niche in the Seattle area is not very easy. With the many area distributors focusing mainly on Boeing, B&J doubled its efforts, capturing a larger share of remaining maritime business while aggressively pursuing the forestry industry and general contracting trades. The extra effort worked. Sales in 1985 were $12 million, climbing to $13 million in 1986 amid an eroding industrial base. Founded in 1936.

E.F. Bailey Co.

Seattle, WA

Karl Iverson, President

1986 sales: $15 million

Branches: 1 **Employees:** 28

Asked about its sales, Bailey would admit only to a substantial increase in 1986. On the average, Bailey processes 250 orders a day through its 10 inside and nine outside salespeople. In line with the company's philosophy,Bailey aims to become the consummate cutting tool and abrasives specialist and to maximize customer service. Covering the state of Washington, part of Idaho and Portland, OR, Bailey finds aircraft and aerospace a strong market for its products. Founded in 1945.

Bamber Tool Supplies,Inc.

North Haven, CT

Andrew Bamber, President

1986 sales: $6.2 million

Branches: 1 **Employees:** 30

With neighbors like General Dynamics' Electric Boat Div., Pratt & Whitney and General Electric all in close proximity, Bamber Tool now finds it is one of the largest specialty cutting tool distributors in Connecticut. Servicing subcontractors whose lifeblood is defense, Bamber notes that a weakening economy has started to affect its business, and that margins are increasingly difficult to maintain. One possible solution is expansion into other geographic locations. Another option, notes Bamber, is specialization in some other tool area. Founded in 1955.

Bearings & Drives Inc.

El Monte, CA

E.W. Murphy, President

1986 sales: $5 million

Branches: 3 **Employees:** 35

This 42-year-old company is contemplating expansion into a related field. Sales increased substantially in 1986 and the company is currently negotiating to become a manufacturer of industrial products. Bearings & Drives views this new area of activity as an opportunity to increase profitability. Company officials say manufacturing will let the firm break away from what it sees as industrial distribution's limited profit margins and competition. Founded in 1945.

Boring & Smith Industries

Tucker, GA

Douglass C. Smith, President

1986 sales: $8 million

Branches: 1 **Employees:** 36

Boring & Smith succeeds due to an aggressive marketing strategy. Smith, the company's president, said the firm does about 65% of its business selling off of its trucks and 35% out of its warehouse. The company has six outside and five inside salespeople, carries 30 different product lines and handles about 180 orders daily. In 1982, Boring & Smith acquired Georgia-Alabama Supply Co, West Point, GA, a traditional mill house. Smith indicated that company plans include acquisitions. Founded in 1972.

Bossert Co.

Kansas City, MO

B.B. Fox, President

1986 sales: $17 million

Branches: 1 **Employees:** 62

By servicing a large geographical area from its single branch, Bossert keeps its overhead low and market share high. Servicing machine and metalworking shops, the company places a high priority on maintaining a large inventory while reinforcing its readily available products with top-quality service, well-trained counterpeople and technical assistance. With half the company's employees in sales, its appetite for new markets is voracious. Bossert plans to "move into municipalities" by changing its product mix to suit the area. Founded in 1945.

75

Buford Bros., Inc.
Nashville, TN
T.L. Ritter, President
1986 sales: $13.8 million
Branches: 1 **Employees:** 48

T.L. Ritter, Buford Bros.' president, plans to move more aggressively into the middle-Tennessee market through a "substantial redeployment of liquid assets." This comment comes after the recent sale of two of Buford's eastern-Tennessee branches to Cameron & Barkley. Describing itself as a "specialist-generalist," Buford principally services machine shops. While crediting a growing economy for healthy sales, the company also heralds automatic ordering, strategic planning and aggressive selling. Founded in 1837.

Carey Machinery & Supply
Baltimore, MD
G. Cheston Carey, Jr., President
1986 sales: $12 million
Branches: 3 **Employees:** 50

Once dependent upon smokestack industry, Carey's general line distributorship now markets its wares to aerospace, medical, high-technology, and government industries. By carrying top-quality lines, implementing electronic ordering and obtaining systems contracts, Carey, 1987-1988 president of the National Industrial Distributors Assn., succeeded in capturing his competitors' market share. Company plans call for geographic expansion within the same product lines. Founded in 1886.

Carlson-Dimond & Wright Inc.
Warren, MI
James T. Wright, President
1986 sales: $7.5 million
Branches: 1 **Employees:** 21

Aware that the power transmission business is becoming increasingly complex, CDW made a market for itself against rival "supermarkets." Although hindered by limited purchasing power, Wright claims the edge with technical know-how. Observing that young plant workers lack much-needed hands-on experience, the company emphasizes technical assistance as a value-added service. Although heavily reliant upon the auto industry, Carlson managed to increase revenues at a time when Detroit sees sales slipping. Founded in 1937.

Chicago Chain & Transmission Co.
LaGrange, IL
Harry Schwarz, President
1986 sales: $12 million
Branches: 1 **Employees:** 34

A specialty power transmission distributor, Chicago Chain services food processors, OEMs, and chemical and conveyor markets. Schwarz cites the company's problem-solving abilities in the high-tech power transmission market, value-added services and low employee turnover as reasons for the company's success. Chicago Chain also alerts customers that it is not a commodity house for PT products. The company expects to realize increased growth by offering design facilities, technical assistance and expanded product lines. Founded in 1965.

Cincinnati Belting & Transmission
Cincinnati, OH
Jim Stahl, President
1986 sales: $10 million
Branches: 1 **Employees:** 42

When Jim Stahl bought his business in 1975, he had only six employees, sales of $450,000 and no experience in industrial distribution. Today, his specialty power transmission business boasts 10 inside and 12 outside salespeople and estimates gross revenues for 1987 at $13 million. Realizing that power transmission markets would not be growing, Cincinnati Belting & Transmission achieved substantial growth in high-tech motion control and became the first Allen-Bradley PT distributor in the country. Founded in 1917.

Dillon Supply Co.
Raleigh, NC
C.A. Dillon, President
1986 sales: $55 million
Branches: 11 **Employees:** 300

Dillon, citing its 73-year history as a general line supplier, foresees no radical changes in its future. The company opened two branches in the past year. On the average, Dillon processes 1000 orders daily through its 40 inside and 60 outside salespeople. The company continues to expand its product line and add branches as opportunities are presented. Founded in 1914.

Doussan, Inc.
New Orleans, LA
Leonard Doussan, Sr., President
1986 sales: $20 million
Branches: 2 **Employees:** 97

Successfully reacting to mistakes and solving customer problems make Doussan a top distributor. According to a company spokesperson, Doussan's loyalty and commitment to the products it sells contribute to its enjoyment of a strong reputation. "We don't take on a line unless we feel we can do a good job with it," the spokesperson noted. The company has 25 contract accounts, the bulk of which it has handled for 20 years. Doussan has 16 outside and 15 inside salespeople and handles about 300 orders daily. Founded in 1945.

Empire Machinery & Supply
Norfolk, VA
H.P. McNeal, Chairman
1986 sales: $20 million
Branches: 3 **Employees:** 105

Honesty, fairness and a strong knowledge of the business contribute to the success of Empire Machinery. Chairman McNeal noted that Empire Machinery's strength is its employees, many of whom have been with the company for several years. In addition, McNeal said Empire plans to improve its computer capability by providing customers with order-entry capability. This general line distributor has 40 inside and 10 outside salespeople, carries slightly over 2000 product lines and handles about 400 orders daily. Founded in 1914.

Engman-Taylor Co.
Menomonee Falls, WI
Richard W. Star, President
1986 sales: $13 million
Branches: 3 **Employees:** 68

This privately held company, a cutting tool and abrasives specialist for more than 30 years, will soon announce the creation of its new Maintenance Products Co. division located in Milwaukee. The new unit will function as a general line distribution branch to service customers with MRO products. With an inventory valued in excess of $1 million, the company fills approximately 180 orders a day, of which about 25% are systems contracts. Founded in 1956.

Ensco Supply Co.
Greensboro, NC
Randolph G. Ensign, President
1986 sales: $6.5 million
Branches: 2 **Employees:** 58

According to Ensco's President Ensign, the company's success stems from a work force with the technical knowledge necessary to serve as customer consultants. Ensign says that, due to total commitment to service, the company grew 8% in 1986. Ensco markets itself aggressively through television advertising, has started a direct marketing program supported by its telemarketing staff and plans to expand its two branches. Founded in 1946.

Fairmont Supply Co.
Washington, PA
David R. Pattison, President
1986 sales: $200 million
Branches: 32 **Employees:** 650

Fairmont is an aggressive company proud of its past and poised for the future. According to President Pattison, during the mid-1950's Fairmont was one of the first eastern distributors to spearhead the value-added concept through the use of systems contracts. In 1985, the company was selected along with two other large distributors to supply Du Pont's MRO needs. Fairmont has 78 inside and 50 outside salespeople, carries in excess of 500 product lines and generates more than 50% of its business in systems contracts. Founded in 1921.

Fasteners, Inc.
Newington, CT
E.D. Otto, President
1986 sales: $3.5 million
Branches: 1 **Employees:** 15

This single-branch Connecticut distributor attributes its success to handling domestic products exclusively in its construction fastener line. A recent doubling of office and warehouse space leaves the company poised for growth. Firmly committed to systems contracts, 70% of Fasteners, Inc.'s business is now represented by that portion of the business. As a result, this 126-year-old company stocks a $1 million-plus inventory with emphasis on stocking a manufacturer's complete line. Founded in 1962.

J. Fegely & Son Inc.
Pottstown, PA
John J. McCaslin, President
1986 sales: $10.9 million
Branches: 4 **Employees:** 70

Fegely is looking at mergers and acquisitions in what it calls "traditional and nontraditional" product lines. While firmly committed to remaining in Pennsylvania, this privately held company expects to expand its geographic coverage through increased use of telemarketing and catalog sales. Six of the company's 16 inside salespeople perform telemarketing. The company fills 400 orders per day. Founded in 1851.

GRS Industrial Supply Co.
Grand Rapids, MI
Marion E. Keller, President
1986 sales: $12.1 million
Branches: 3 **Employees:** 58

A sales staff with an average experience level of 17 years and solid technical expertice makes GRS a growing firm. Formerly Grand Rapids Supply, the company changed its name last year when it added a branch in Kalamazoo, MI. Keller, the company's president, said another company strength is its 95% fill rate on stock items. GRS has 12 outside and nine inside salespeople, carries about 250 product lines and fills about 260 orders each day. Systems contracts account for roughly 10% of GRS' business. Founded in 1936.

W.W. Grainger, Inc.
Niles, IL
Wiley N. Caldwell, President
1986 sales: $1.6 billion
Branches: 200 **Employees:** 5700

From its number of branches to the size and diversity of its inventory, everything about Grainger is impressive, including the quality of its management. This giant distributor's stated goal is to add up to 100 new branches in the next 3 to 4 years, an increase of about 50%. Many of these additions will be satellite stores in cities. Grainger senses a vacuum where office construction requires rapid customer service. The company also expects to add to its existing line of 15,000 products, now sold by a contingent of 665 salespeople. Founded in 1927.

C.L. Gransden & Co.
Dearborn, MI
Charles G. Lendvoyi, President
1986 sales: $15 million
Branches: 1 **Employees:** 40

Gransden, formerly a wholly owned subsidiary of Columbia General, is undergoing a leveraged buyout by its top management. The company has 13 salespeople—five inside and eight outside. This general liner's major goal is to upgrade its systems to better service its customers, comprised primarily of auto and auto-related companies in the Dearborn area. Gransden is also becoming heavily involved in electronic ordering. Expansion, the company says, is not currently Gransden's primary objective. Founded in 1917.

Walter R. Hammond Co.
Minneapolis, MN
Jerry D. Hammond, President
1986 sales: $6 million plus (est.)
Branches: 1 **Employees:** 33

Hammond experiences 7 to 8% growth annually with sales this year projected at $6.5-$8 million, which "should be dwarfed next year," according to a company spokesperson. Using electronic ordering, the company is at the leading edge of communications technology. A substantial part of Hammond's growth is due to its aggressive direct mail program; the company mails 3800 pieces of literature monthly, some of it suppliers' literature, some written and designed in house. Founded in 1944.

R.S. Hughes Co.
Sunnyvale, CA
Robert H. McCollum, President
1986 sales: $50 million
Branches: 20 **Employees:** 200

Although it represents only 30 suppliers, this highly specialized distributor of industrial adhesives is one of the largest in the nation. Servicing customers primarily in western and southwestern markets, Hughes' recent acquisition of four Florida branches of Dayton Distributors positioned the company as a considerable presence in the sunbelt. In line with its corporate strategy, Hughes aims to achieve 20% annual growth amid an adhesives industry said to be growing at 7 to 8%. The company's 20 stocking locations, which service customers nationally, contain $6 million in inventory. Founded in 1954.

75

Industrial Bearing & Transmissions
Columbus, GA
J.P. Massey, President

1986 sales: $5 million plus

Branches: 3 **Employees:** 35

Industrial Bearing is firmly committed to its specialty. Its customers include the food processing, textile and rubber industries. The company has eight inside and seven outside salespeople and has been privately held since being founded 35 years ago. Industrial Bearing & Transmissions anticipates modest but steady growth over the next year. Founded in 1952.

Industrial Supply Co.
Salt Lake City, UT
Philip M. Thompson, Jr., CEO

1986 sales: $18.9 million

Branches: 1 **Employees:** 95

Innovation is a hallmark of this firm. As one example, Industrial Supply's CEO Thompson points to a unique television advertising campaign as a key factor in generating growth and financial stability. According to Thompson, the company's strength is its people. All employees must spend time in the warehouse when they first start and periodically attend seminars as they progress with the company. This general line distributor has 14 inside sales reps and 28 outside people. Founded in 1916.

Industrial Tool & Supply Co.
San Jose, CA
James E. Allen, President

1986 sales: $6 million

Branches: 1 **Employees:** 25

This cutting tool distributor's new management trio plans to organize coverage of sales territories by geography, instead of simply calling on major accounts. According to a company spokesperson, one of the firm's strong points is its thorough and knowledgeable sales force. Industrial Tool & Supply has seven outside and four inside salespeople, carries 150 top lines and handles about 100 orders daily. In addition, systems contracts account for roughly 20% of the company's business. Founded in 1947.

Invetech Co.
(Detroit Ball Bearing)
Detroit, MI
Michael Moore, President

1986 Sales: N.A.

Branches: 85 **Employees:** 1000

Invetech is serious about giving its customers the best service possible. To prove its commitment, the company has been open 24 hours every day, 7 days a week, for the past 10 years. Moore, Invetech's president, said many of the industrial concerns in the Detroit area operate round-the-clock and need that kind of service. The company has 250 inside and 100 outside salespeople, carries 125 product lines and handles about 4500 orders every day. Systems contracts generate roughly 30% of Invetech's business. Founded in 1917.

J&L Industrial Supply Co.
Detroit, MI
Joel H. Shapiro, President

1986 sales: $30 million

Branches: 4 **Employees:** 160

J&L is a successful mail order business that sells to 42,000 customers nationwide. President Shapiro said J&L prints a 336-pg catalog each year, as well as two supplemental catalogs, as a customer service. Shapiro maintained that the company enjoyed about a 15% sales increase in 1986 because of its service philosophy and substantial inventory. "If you give me a call before 3 p.m., you'll have the order the next day," he said. J&L has 25 inside and eight outside salespeople. Founded in 1971.

Kaman Bearing & Supply
Bloomfield, CT
Charles Kaman, CEO, Kaman Corp.

1986 sales: N.A.

Branches: 165 **Employees:** N.A.

In a segment of distribution that claims a number of specialized giants, Kaman has a unique advantage—its affiliation with the other segments of parent Kaman Corp., a defense manufacturer on one hand, a distributor on the other. Says a company spokesperson, "The division has the commitment and the know-how of top-level corporate experts and manufacturing and marketing expertise in bearings and distribution." The parent also offers the division inside information on the leading edge of technology. Founded in 1971.

Kaner Co.
Los Angles, CA
Jay Kaner, President

1986 sales: $35 million

Branches: 5 **Employees:** 175

Substantial inventory, financial stability and a good service record are reasons the Kaner Co. enjoyed a 9% sales gain in 1986. According to President Kaner, the company plans to open at least three new branches within the next year. This general line distributor has 50 inside and 35 outside salespeople, carries 300 product lines and handles about 500 orders daily. The company concentrates business on construction and industrial markets. Founded in 1960.

Kel-Welco Distributing, Inc.
Omaha, NE
Phillip Welch, President

1986 sales: $13 million

Branches: 5 **Employees:** 54

Going the extra mile for the customer makes Kel-Welco a major player within industrial distribution. A company spokesperson said one of Kel-Welco's strong points is its excellent product mix, which includes about 20 different major lines of power tools and fastener devices. Kel-Welco plans to upgrade its computer capabilities in the future by providing customers with order-entry capabilities and better inventory control. The company has 28 outside and 15 inside salespeople and handles about 400 orders daily. Founded in 1975.

King Bearing, Inc.
Costa Mesa, CA
Jean Paul Montupet, Chairman

1986 sales: $174 million

Branches: 92 **Employees:** 1080

Consistency and financial strength make this West Coast bearing and power transmission specialist an industry leader. King Bearing has technical specialists on staff, conducts surveys, makes inventory consultations, and offers 24-hour emergency service. The company opened four branches this year and is scheduled to open eight next year. King Bearing has 800 inside and 280 outside salespeople, carries 300 product lines and handles about 4000 orders daily. Systems contracts account for 18% of the company's business. Founded in 1945.

75

Krivo Industrial Supply Co.
Chicago, IL
Marcia Krivo, President
1986 sales: $10 million
Branches: 2 **Employees:** 50

Krivo Industrial Suppply is an aggressive company always looking for new ways to improve business. During the past 5 years, Krivo's branch office in Elk Grove Village, IL, has been a testing ground for a new computer system. A company spokesperson said Krivo is ready to use the system at its headquarters to handle a wide range of business functions, including estimating, purchasing and accounts payable. Krivo Supply has 15 inside and 12 outside salespeople and represents more than 500 product lines. Founded in 1954.

Lakeshore Machinery Inc.
Muskegon, MI
Dave Van Aelst, President
1986 sales: $3.5 million
Branches: 1 Employees: 13

Lakeshore attributes its success as a small specialty machinery and grinding shop to sticking with some basic business precepts: stay away from quick-dollar products; stay away from Taiwanese equipment; and stick to service, service, service. Although vague investment tax credit codes have recently hurt business, Van Aelst remains confident. While his competition is selling new machinery from offices, he says that his 18,000-sq-ft combination warehouse and service center will continue to provide his business with a leading edge. Founded in 1934.

Laman-Loesche Supply Co.
Philadelphia, PA
Peter D. Laman, Jr., President
1986 sales: $18 million
Branches: 2 **Employees:** 62

This general line distributor, which maintains a branch in nearby Egg Harbor, NJ, estimates annual sales at $18-$20 million. Laman-Loesche's customers and suppliers are said to be fiercely loyal to this company, which judiciously maintains its reputation as a dealer in top-of-the-line industrial products. Because it pays its bills promptly, the company's president says Laman-Loesche can always discount its suppliers' invoices. A fleet of mini-trucks guarantees prompt service within a radius of 150 miles around Philadelphia. Founded in 1949.

Machine Tool Supply, Inc.
Eagan, MN
Roy Otto, President
1986 sales: $15 million
Branches: 3 **Employees:** 58

An advanced computer system, financial stability and a staff of technical professionals help make Machine Tool Supply a first-rate company. According to President Roy Otto, Machine Tool Supply's specialists are well-versed in SPC systems and gauging technology. The company encourages all employees to attend manufacturers' training seminars in order to keep abreast of the abrasives and cutting tools fields. Founded in 1953.

James McGraw, Inc.
Richmond, VA
R. Eugene Mitchell, Chairman
1986 sales: $30 million
Branches: 8 **Employees:** 128

James McGraw's strength lies in the fact that it allows management to spend about 15% of its time with customers, according to Chairman Mitchell. Mitchell said he expects James McGraw to grow through acquisitions in the next few years. Currently, the company operates three branches in North Carolina under the name Smith-Courtney. James McGraw has 30 inside and 30 outside salespeople, carries 50 product lines and handles about 450 orders daily. Systems contracts generate roughly 10% of the company's business. Founded in 1866.

McJunkin Corp.
Charleston, WV
H.B. Wehrle, III, President
1986 sales: $204 million
Branches: 44 **Employees:** 1000

Financial stability, inventory and sheer size are all selling points for McJunkin Corp., a pipe, valves and fittings distributor operating in 22 states. According to President H.B. Wehrle, one of McJunkin's strong points is its highly trained employees. Wehrle noted that McJunkin has no new plans for acquisitions because the company is currently absorbing the March acquisition of Grant Supply Co., Houston, TX. The Grant purchase added 11 branches to the company. McJunkin has 175 inside and 125 outside salespeople. Founded in 1921.

Neill LaVielle Supply Co.
Louisville, KY
Robert G. Pfeiffer, Chairman, CEO
1986 sales: $25 million
Branches: 2 **Employees:** 145

Systems contracting, competitive pricing and a sales force with solid technical expertise contribute to Neill LaVielle's steady growth rate. Chairman Pfeiffer said the company is currently working with some of the large industrial companies in its region to coordinate a JIT-like arrangement for MRO supplies. This general line distributor has 25 inside and 25 outside salespeople, carries 150 product lines and handles about 700 orders each day. Systems contracts account for roughly 15% of the company's business. Founded in 1861.

Noland Co.
Newport News, VA
Lloyd V. Noland, Jr., President
1986 sales: $426.5 million
Branches: 101 **Employees:** 2000

In its 72 years, Noland grew from a one-store plumbing contractor into one of the largest general line distributors in the country. This publicly held company has branches in 13 states and plans to add 11 branches in Texas and expand into Florida. The company divides its business into a plumbing and heating department which accounts for half its sales, an electrical department, an industrial department, and an air conditioning and refrigeration department. Founded in 1915.

Phillips/Day & Maddock
(formerly Phillips Industrial Products)
Cleveland, OH
Robert V. Munson, President
1986 sales: $12 million
Branches: 4 **Employees:** 65

Munson attributes his company's annual growth of 15% to "commitment." He and his two brothers, who acquired the firm in 1968, place heavy emphasis on training, partnerships with vendors and customer service with 24-hour deliveries on orders. Phillips' computer tracks 20,000 line items continually through registering orders, inventory status and replenishment point. The company launched a successful telemarketing program this spring. Founded in 1948.

Plant Service Co.

Pittsburgh, PA
Lee Frazier, President

1986 sales: $7 million

Branches: 1 **Employees:** 39

Staying loyal to manufacturers and stocking inventory makes Plant Service a successful industrial distributor. A spokesperson for the company noted that Plant Service recently installed a high-speed band saw welder that allows the company to weld blades more efficiently. Plant Service has 10 outside and five inside salespeople, carries 150 product lines and handles about 100 orders each day. Systems contracts account for about 40% of the company's business. Founded in 1969.

Pleasants Hardware Co.

Winston-Salem, NC
C. Edward Pleasants, Jr., President

1986 sales: $30-$33 million

Branches: 5 **Employees:** 170

With the divestiture in June of its Dealer Div. (wholesale hardware) to Moore-Handley Inc. of Birmingham, AL, Pleasants' Hardware is left with its Boulevard Pro Hardware, a general line distributor operating out of a retail-type store. Also left intact is Pleasants' Contractor Sales Div. specializing in construction hardware. This division is the focus of a new and aggressive expansion program. One company officer attributed Pleasants' success to an "extremely dedicated workforce" and a continually replenished inventory. Founded in 1913.

Production Tool Supply Co.

Warren, MI
Mark S. Kahn, President

1986 sales: $10 million plus

Branches: 9 **Employees:** 230

Production Tool does more than half its business as a master distributor servicing other distributors. The company has no plans to expand beyond its immediate midwestern geographic area. Uniquely, the company employs no outside salespeople and instead relies entirely upon its widely distributed catalog, a 40-person inside sales force and its branches. The company attributes its success to the fact that it is privately held and has a strong management team. Founded in 1953.

Quality Mill Supply Co.

Columbus, IN
Donald E. Dowden, Chairman

1986 sales: $14 million

Branches: 4 **Employees:** 55

Continuity in its sales and management staff led to an 8% sales increase in 1986 for Quality Mill Supply. According to Chairman Dowden, the company will add technical specialists to its staff to cover electronic gauging and carbide cutting tools. This general line distributor has 11 outside and seven inside salespeople, carries 200 product lines and handles about 115 orders each day. In addition, systems contracts account for 20% of Quality Supply's business. Founded in 1944.

Rex Supply Corp.

Houston, TX
John P. Madden, President

1986 sales: N.A.

Branches: 6 **Employees:** 200

A victim of the steep drop in oil prices that severely affected much of Houston's businesses, Rex is ready for better days now that oil prices are starting to rebound. The secret of Rex's resilience is a pool of experienced personnel, a solid core of business and an excellent inventory. The company employs 19 inside and 43 outside salespeople. Systems contracts now comprise one-third of the company's business and Rex expects them to constitute an increasing share in the future. Founded in 1938.

C.W. Rod Tool Co.

Houston, TX
Randall L. Rod, President

1986 sales: $3 million

Branches: 1 **Employees:** 19

Maintaining a strong inventory base in one of the country's most depressed regions keeps this cutting tool specialist a top regional distributor. According to President Rod, the company's strengths are its financial stability and the technical support it gives customers. C.W. Rod has seven inside and four outside salespeople, carries 100 product lines and handles about 200 orders each day. Roughly 10% of the company's business comes from systems contracts. Founded in 1978.

S&K/Air Power Tool & Supply

Mattoon, IL
Carl Stacey, President

1986 sales: $12 million

Branches: 7 **Employees:** 60

S&K is a general line distributor with branches throughout a broad geographic territory. The company's major markets are the construction, chemicals, mining, defense, utilities, and transportation industries. S&K, which has 36 people on its sales force, has seen systems contracts grow from 10% of its business in 1985 to nearly 20% only a year later. The company offers a range of services including repair work, design, assembly, installation, 24-hour service, and technical assistance. Founded in 1961.

Satterlee Co.

Minneapolis, MN
James Campbell, President

1986 sales: $26 million

Branches: 4 **Employees:** 95

Despite the national decline in machine tool orders and problems in agricultural markets, Satterlee Co. continues to maintain steady sales levels. Indicative of its innovative style, a division within the company achieves large sales volume by marketing products nationally to high school shop classes. Additionally, this general line distributor sells to tool and job shops, metal manufacturing centers, and the pulp and mining industries. Founded in 1897.

Shadbolt & Boyd Co.

Milwaukee, WI
Thomas L. Doerr, President

1986 sales: N.A.

Branches: 3 **Employees:** N.A.

A commitment to excellence, along with its experienced staff, help make Shadbolt & Boyd one of ID's Top 75. This general line distributor markets a diverse range of products, including maintenance supplies, janitorial and safety products, shop tools and equipment, measuring equipment, and materials handling and storage products. Shadbolt's over 8000 end users include customers from small job shops to large industrial facilities. The company carries 500 different product lines. Shadbolt is an operating unit of the Doerr Corp., founded in 1983 to acquire industrial distribution firms; Shadbolt was Doerr's first acquisition. Founded in 1863.

75

Southern Belting & Transmission Co.
Atlanta, GA
Ray Dollar, President
1986 sales: $10 million
Branches: 2 **Employees:** 56

A commitment to customer service and strong technical expertise helped Southern Belting realize an 11% sales gain in 1986. With its specialty in variable frequency and dc drives, and digital counters, President Dollar said Southern Belting offers customers "a total solution to their technical problems." Dollar said that by providing financial incentives to every department in the company, Southern Belting increased productivity and customer satisfaction. The company has 14 outside and 10 inside salespeople. Founded in 1890.

Southwest Industrial Supply
Glendale, CA
Michael F. Maluccio, President
1986 sales: N.A.
Branches: 11 **Employees:** 130

This West Coast general line distributor boasts nine distributors in the West as well as distributorships in the Phillipines and Taiwan. "We're different in many ways," said President Maluccio. "We're independent." Maluccio said he enjoys an extremely close relationship with suppliers, 50 of whom supply 80% of his regular inventory. Maluccio said he buys independently to be "geared to the market," instead of buying what isn't needed under supplier pressure. Southwest has 10 order-entry test terminals in customers' buying offices and is experimenting with telemarketing. Founded in 1940.

Spencer Products Co.
Bedford Heights, OH
Robert Tuttle, President
1986 sales: $8 million
Branches: 4 **Employees:** 35

Stable employee and financial bases contribute to steady growth at Spencer Products. This family-owned speciality fastener distributor said its primary strength is the product knowledge of its employees, who are encouraged to attend manfacturers' training sessions. Spencer has five outside and five inside salespeople, carries 20 product lines and handles about 50 orders each day. The company's major markets are construction and automotive. Founded in 1950.

Strong Tool Co.
Cleveland, OH
Robert Kraisner, President
1986 sales: $20 million
Branches: 8 **Employees:** 85

"We've grown steadily for 10 years, with a 6% annual growth rate in a shrinking market," said Robert Kraisner. In describing the thrust behind this success, Kraisner said he wants the market to perceive abrasives, cutting tools and maintenance tooling as synonymous with Strong Tool. Brochures and direct mail produced in house help reach this goal by identifying STC as equal to, if not more dominant than, the supplier's name. "The more people identify us with the product, the more successful we are," Kraisner explained. "We're now the largest abrasive specialist in Ohio." Founded in 1958.

Texas Mill Supply & Mfg.
Galena Park, TX
M.K. Legro, President
1986 sales: $40 million
Branches: 4 **Employees:** 180

This general line distributor, which employs 28 inside and 25 outside salespeople, is in the process of expanding branches to improve service to its trade area in Texas and Louisiana. In addition to its branches, this innovative, privately held firm operates mobile units as mini-branches, stocking basic inventory and selling to construction sites, factories and highway crews. Its service area includes two-thirds of Texas and Louisiana. Founded in 1965.

Tracy Robinson & Williams
Hartford, CT
Thomas (Chip) Norris, Jr., President
1986 sales: $5.9 million
Branches: 1 **Employees:** 20

Although Chip Norris is always looking for new product lines, he said his company remains steadfastly committed to carrying the highest quality products at very competitive prices. For instance, the company has been a Norton distributor since 1901 and, Norris said, wouldn't dream of switching. One criterion always employed in selecting a new line, however, is an 18% profit line. If a product can't meet that demand, it is quickly replaced. Present plans call for trimming company product lines while expanding customer base. Founded in 1835.

Transply, Inc.
Dillsburg, PA
Ray L. Gross, President
1986 sales: $6.8 million
Branches: 5 **Employees:** 37

A sharp knowledge of the local market and a good record at moving product led to a 15% sales growth rate in 1986 for Transply. Gross, Transply's president, said the company's strengths include its financial stability, high service level and substantial inventory. The power transmission specialist has 11 outside and nine inside salespeople, carries 16 product lines and handles about 110 orders daily. Systems contracts account for roughly 10% of the firm's business. Founded in 1972.

Travers Tool Co.
Flushing, NY
C. Barry Zolot, President
1986 sales: $20 million
Branches: N.A. **Employees:** N.A.

Buy right. Sell right. The unheralded policy of this aggressive tool and metalworking supply specialist nets its above-average sales domestically and in 17 other countries. Inventory is so complete, the company claims it ships 97.5% of orders the same day. The mainly mail-order and telephone specialist issues a 362-pg catalog to select users but annually mails some one million pieces of literature to U.S. and overseas users. Travers designs and writes the literature in house. Founded in 1924.

Turner Supply Co.
Mobile, AL
Howard M. Schramm, Jr., President
1986 sales: $15 million
Branches: 5 **Employees:** 110

A staff of employees with sound product knowedge, as well as a strong financial base, make Turner Supply a favorite among manufacturers. Schramm, the company's president, explained that Turner Supply has no acquisition plans but is currently formulating a 5-year sales plan. In addition, the company had a computer program written to service the needs of the entire operation, including estimating, purchasing and inventory control. Turner has 21 inside and 15 outside salespeople, carries more than 200 lines and handles 280 orders daily. Founded in 1905.

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Industrial Distribution,® (USPS-889-860) is published monthly by Cahners Publishing, A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. William M. Platt, President; Terrence M. McDermott, Executive Vice President; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Vice President/Publishing Operations; J.J. Walsh, Financial Vice President/Magazine Division; Thomas J. Dellamaria, Vice President/Production and Manufacturing. Industrial Distribution® copyright 1987 by Reed Publishing USA; Saul Goldweitz, Chaiman; Ronald G. Segal, President and Chief Executive Officer; Robert L. Krakoff, Executive Vice President. Annual subscription rates for non-qualified individuals: USA, $50 per year; Canadian, foreign and surface mail, $70 per year; foreign (air mail), $150 per year. Single copies, $6. Address subscriptions to Industrial Distribution®, Circulation Dept., 44 Cook St., Denver, CO 80206. Phone 303/388-4511. Second-class postage paid at Denver, CO and additional mailing offices. Send address changes to Industrial Distribution at the Denver address.

REPRINTS: For quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018, (312) 735-8800

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